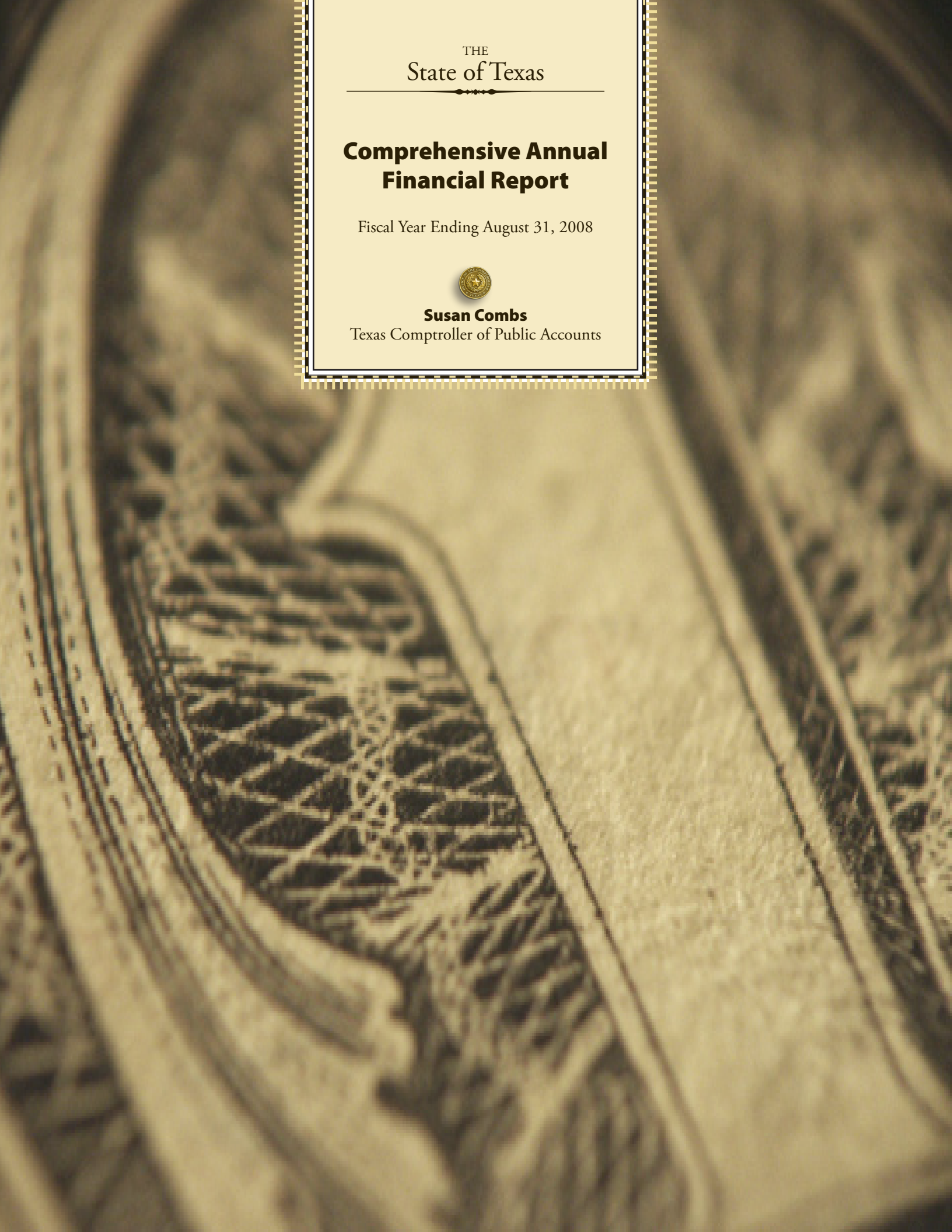

THE
State of Texas

Comprehensive Annual Financial Report

Fiscal Year Ending August 31, 2008

Susan Combs
Texas Comptroller of Public Accounts

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Texas Comptroller of Public Accounts

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Financial Reporting section of the Texas Comptroller of Public Accounts with
assistance from other sections within the Fiscal Management and Public Outreach and Strategies Divisions.

Irene Lee, CPA, Financial Reporting Supervisor
Wiley Thedford, Assistant Supervisor
Al Kruzel, Team Lead

Magdalena Foley
Kelley Glaeser, CPA
Lynn Gunn, CPA
Kathy Hubert, CPA
Amanda Landry, CPA
Wallace Lankford, CPA
Rami Legha, CPA
Laurel Mulkey
Stacy Parker
Shirley Perry
Aurora Ramirez
Patricia King Sigg
Barbara Swearingen
Lori Williams, CPA
Linda Yarbrough
Tom Zapata, CPA

Other Sections:

Gary Bryant
Armando Cantu
Francine Fowler, CPA
Precilla Hauer
Bruce Holmstrom
David Heffington
Jim Smith
Terri Whaley

Suzy Whittenton, CPA, Fiscal Management Division Director
Tom Mathey, CPA, Fiscal Management Assistant Director
Darrell Edge, Fiscal Integrity Manager
Phillip Ashley, CPA, Fiscal Integrity Assistant Manager

Public Outreach and Strategies, Graphics Team:
Brad Wright
Duana Gill

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The State Auditor, John Keel, CPA, and his auditing staff.

State of Texas
Comprehensive Annual Financial Report

For the Year Ended August 31, 2008

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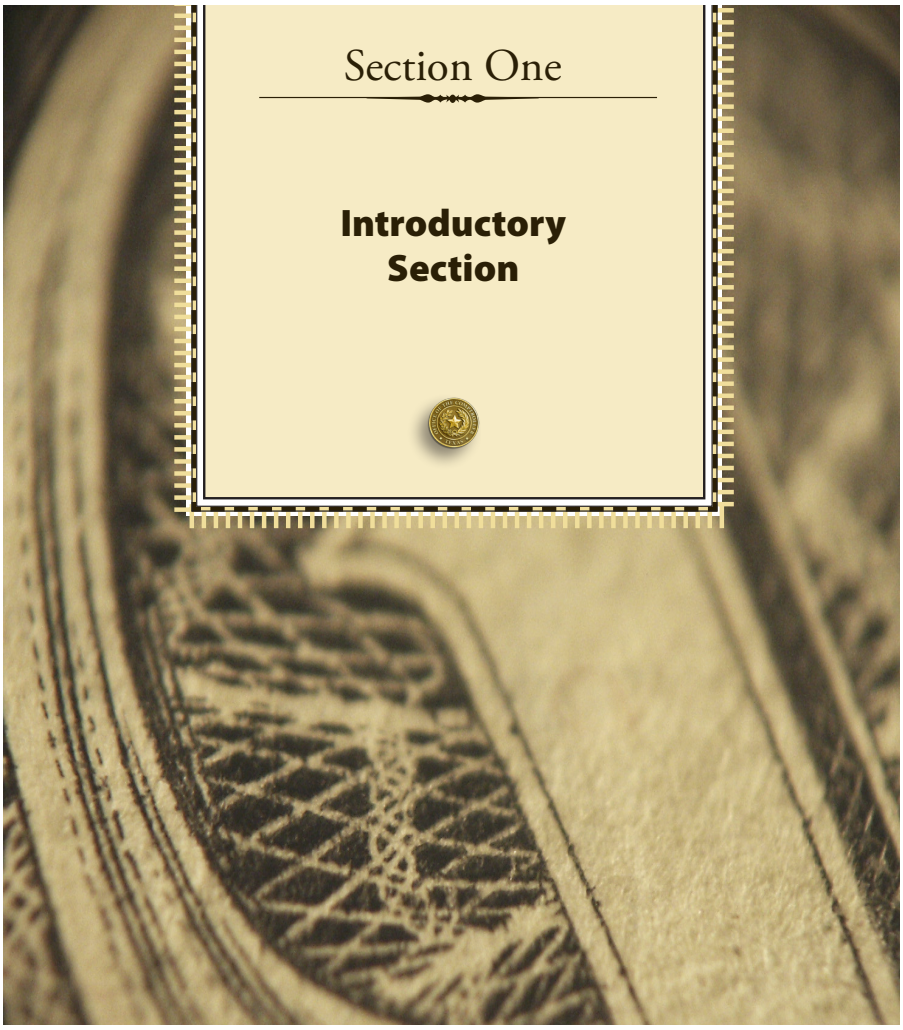

Section One
Introductory Section

February 27, 2009

To the Citizens of Texas, Governor Perry
and Members of the 81st Texas Legislature:

The Comprehensive Annual Financial Report (CAFR) of the state of Texas for the fiscal year ended Aug. 31, 2008, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects, and all disclosures necessary for a reasonable understanding of the state's financial activities have been included.

The reporting approach established by the *National Council on Governmental Accounting* in *Statement No. 1* and endorsed by the Governmental Accounting Standards Board (GASB) has been utilized. The state also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) of the United States and Canada for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. This report is divided into three sections. (1) The introductory section provides this transmittal letter, elected state officials, government structure of Texas and the GFOA Certificate of Achievement. (2) The financial section includes the auditor's opinion; management's discussion and analysis (MD&A), which provides an introductory overview and analysis of the financial statements; the financial statements, which present government-wide financial statements for the primary government along with the component units of the state of Texas and fund financial statements for governmental funds, proprietary funds and fiduciary funds, together with the notes to financial statements; required supplementary information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and other supplementary information, which includes the combining financial statements. (3) The statistical section provides various financial, economic and demographic data about the state.

The state auditor has performed an audit in accordance with generally accepted auditing standards of the state's general-purpose financial statements. His opinion is presented in this report preceding the financial statements.

The state auditor has contracted with KPMG to perform portions of the federal audit procedures necessary to meet the requirements of the federal Single Audit Act Amendments of 1996 and related Office of Management and Budget (OMB) Circular A-133. The federal portion of the Statewide Single Audit Report for the year ended Aug. 31, 2008, with the opinion expressed by KPMG, will be issued separately.

Profile of the Government

This report includes government-wide financial statements and fund financial statements of various departments, agencies and other organizational units, which are considered part of the state of Texas financial reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by GASB. The criteria includes legal standing and financial accountability. Other organizations, which would cause the financial statements to be misleading or incomplete if they were excluded, are also included in the reporting entity. Note 1 of the notes to financial statements provides detail on the financial reporting entity. A brief summary of the nature of significant component units and their relationship to the state of Texas is discussed in Note 19.

All activities that would generally be considered part of the state of Texas are included in this report. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits and teacher retirement benefits.

Accounting System and Budgetary Controls

The MD&A, in the financial section, provides an overview of the state's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, MD&A focuses on the state's major funds: the general fund, state highway fund, permanent school fund, colleges and universities funds, Texas Water Development Board funds and the Texas Department of Transportation Turnpike Authority. The fiduciary activities are excluded from the MD&A.

The state's financial statements for governmental funds, including general, special revenue, debt service, capital projects and permanent funds, have been prepared on the modified accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). Revenues are recognized when measurable and available to finance current expenditures; expenditures are recognized when the related liability is incurred. The government-wide financial statements (statement of net assets and statement of activities), proprietary (including colleges and universities), pension and other employee benefit trust, external investment trust, private-purpose trust and agency funds are accounted for on the accrual basis. A summary of the state's significant accounting policies and other necessary disclosures are included in the notes to financial statements.

The state's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered on the statewide accounting system after an appropriations bill becomes law. The appropriations bill becomes law after passage by the Legislature, certification by my office that the amounts appropriated are within the estimated collections and the signing of the bill by the governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure that expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state is found in the required supplementary information other than MD&A section.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve a portion of the applicable appropriations, is employed for purposes of budgetary control and contract compliance. Encumbrances at year-end do not constitute expenditures or liabilities.

Economic Outlook and Major Initiatives

Even though the Texas economy slowed in 2008, the state economy continued to grow at a rate that stood out among the states in terms of job gains. In a recessionary national economy, Texas grew more slowly than average during 2008, but relative to other states Texas was a lone star. Only 15 states increased their nonfarm employment from November 2007 to November 2008. The states ranked

second and third in nonfarm employment growth, Oklahoma and Maryland, added fewer than 20,000 jobs each, while Texas added 221,000 jobs, nearly 13 times more than Oklahoma. The U.S. economy lost jobs during every month of calendar 2008 and shed 1.9 million jobs from November 2007 to November 2008, for a loss of 1.4 percent. In short, the national economy experienced a significant decline in 2008, while the Texas economy has merely slowed its overall rate of growth.

Likewise, the U.S. Bureau of the Census reported that Texas was one of only three states (with Utah and Arizona) with population growth over 2 percent in 2008. According to Census Bureau estimates, Texas (with 8 percent of the population) accounted for 15 percent of the nation's total population growth from 2000 to 2008, more than any other state. Migration accounted for almost two-thirds of the increase.

Although the number of Texas workers increased for the fifth consecutive year, available jobs increased less rapidly than the state's labor force, causing the Texas unemployment rate to climb from 4.2 to 5.7 percent between November 2007 and November 2008. Even so, the state's jobless rate remained below the nation's, which climbed from 4.7 to 6.7 percent in the last year.

Texas' current-dollar Gross State Product (GSP) rose 6.4 percent in 2008, for a real (inflation-adjusted) increase of 4.1 percent, a rate exceeding the average real GSP growth rate of 3.5 percent over the past decade, due largely to the strength of the state's energy industry. The natural resources and mining industry, dominated by oil and natural gas in Texas, added jobs at a faster pace (8.2 percent) than any other industry over the twelve months ending in November 2008. All Texas industries added jobs, except for information (down 2.2 percent) and manufacturing (down 1.2 percent). Unlike much of the nation, construction and real estate activity still contributed to Texas' growth in 2008, although at a slower pace than before. Texas' current-dollar GSP reached nearly $1.2 trillion dollars in 2008.

Even with the increase in mining industry jobs, a slower construction industry and job losses in manufacturing meant that Texas' service-providing industries accounted for over 90 percent of the state's job growth in 2008. Construction job increases that had averaged 4.5 percent during the previous four years increased by 2.4 percent in 2008, while manufacturing lost another 1.2 percent of its workers, mostly in response to international labor cost competition. Boosted by robust oil and natural gas drilling rig production through most of 2008, the state's manufacturing industry saw substantial hiring in the machinery and fabricated metal manufacturing sector, but hiring has slowed considerably in these sectors.

Texas has been the nation's largest exporting state since 2002. During the first 10 months of 2008, the value of Texas exports to other countries totaled $165 billion, up 18.6 percent from the first 10 months of 2007. The value of Texas exports has doubled over the last five years and now accounts for 16 percent of the state's gross product. This represents more than one-seventh of total U.S. exports, based on export data from the World Institute of Social and Economic Research. Manufacturers have benefited from a weak dollar that made Texas-made products cheaper in world markets, but the dollar strengthened markedly in 2008. Exports remain a hallmark of the state economy, but will face more price resistance in 2009, so the outlook for manufacturing employment is a leaner year ahead.

Even with the relative strength of the state and continued growth in most industries, the Texas economy experienced a clear weakening as 2008 came to a close. Underlying the weakness were the weight of a national recession, large losses in stock investments, a stronger dollar and the deflating of an oil and natural gas industry that had boomed during most of the year. Hurricane Ike left widespread destruction in the populous Houston-Galveston region, and although this stimulated jobs in repair and construction in the area, the Texas leading economic indicator index hints at net job losses during much of 2009.

Leading Indicators Foresee Contraction

The Comptroller's Index of Leading Economic Indicators suggests a deceleration in economic activity in the state over the near future. The index, a composite of 10 indicators, is designed to forecast the state's employment growth four to

six months in advance. It predicts a retrenchment in the state economy in 2009, as Texas continues to be buffeted by tight credit markets, a stronger dollar and cutbacks in the state's substantial oil and gas industry.

After being at lofty levels from 2005 through 2007, the consumer confidence index in the West South Central states collapsed to below-average levels in 2008. Since it is a major factor driving housing and other major purchases, consumer optimism is a key indicator to economic health, but consumer confidence dropped to its lowest level in more than five years at the end of 2008.

The mining industry retained most of its jobs after the price of oil and natural gas collapsed in the latter part of the year, but the outlook is risky. Energy prices were high during most of the year, and although they put pressure on the budgets of businesses and households, they also have a modestly positive effect on the state's overall economy when prices are high enough to stimulate domestic and international drilling operations. The number of operating oil and natural gas drilling rigs in the state reached a 25-year peak of 946 in September, rising from a low of 306 rigs in 2002. With an average of 898 drilling rigs in operation during the year, 2008 was the state's most active year for oil and gas exploration since 1982, but with sharply reduced oil and gas prices, the rig count waned at the end of 2008.

The single-family housing market is another leading indicator of economic growth. The housing problem is far less pronounced in Texas than nationally, but following national trends, it is a weak link in the Texas economy today. On average, Texas' subprime mortgages are of better quality than in the remainder of the nation since Texans have a higher average percentage of home-owner equity. Still, single-family housing permits fell by 33 percent in Texas during the first 11 months of 2008, compared to the same period of 2007. Multi-family housing permits dropped less, but still fell 7 percent.

On the bright side of the Texas housing market, Texas home prices—the median sale price for existing homes was about $146,000—were stable in a year in which home prices in many U.S. markets declined precipitously. Even with steep price declines in much of the nation, Texas continues to have some of the nation's most attractive real estate prices, relative to household income. Although prices were firmer than in many states, the number of existing home sales in Texas during the first 11 months of 2008 tumbled by 16 percent.

Sales tax collections in Texas, an indicator of taxable retail sales activity, climbed by 5.5 percent during 2008, following a four-year period where collections soared by an average of 9 percent each calendar year. On the other hand, 2008 was a difficult year for automobile sales in the state, as evidenced by motor vehicle sales tax receipts that plunged by 7.5 percent, reversing a three-year string of solid gains.

After 16 years of rising new business incorporations, Texas experienced a decline in 2008. During 2008, the state had a monthly average of 8,877 new incorporations, compared to last year's average of 9,347. Newly incorporated businesses are not always economically viable, but a growing number reflects a willingness of entrepreneurs to invest in new ventures.

Outlook for 2009 and 2010

At the close of calendar 2008, all but one of the state's 10 leading economic indicators point toward a weaker Texas economy in the upcoming months. The U.S. leading indicators index is at recessionary levels, and although the Texas index suggests the state economy will be pared down as well, the state outlook is marginally less negative than the national outlook. Texas' gross domestic product growth has outperformed U.S. growth in all but one year since 1991, and the Comptroller's econometric forecast model predicts that Texas' economy will outperform the nation's in both 2009 and 2010, advancing by 0.8 percent in calendar year 2009 (beating the nation by two percentage points) and 2.9 percent in 2010 (almost one percentage point higher).

Employment in Texas could decline by as much as 0.5 percent in 2009, the first losses since 2003, before rebounding to 1.7 percent growth in 2010. In comparison, U.S. nonfarm employment is expected to decline by 1.5 percent in 2009 before advancing by a slight 0.1 percent in 2010. The unemployment rate is expected to be higher than it is today, ranging between 6 and 7 percent in 2009 and

2010. The state's population will increase by 1.9 percent in 2009, with more than half the growth taking root in net migration to the state, as job seekers elsewhere respond to a relatively healthier Texas economy. During 2009, the state's population will average 24.8 million.

While growth in the global economy and a weaker dollar have boosted Texas' export growth in recent years, the outlook for world economies is generally weak, with nearly every advanced economy expected to lose steam. The value of the U.S. dollar is forecast to continue rising in 2009 before subsiding again in 2010, but Texas export markets are facing strong headwinds.

Personal income growth in Texas is forecast to see retrenchment in 2009, with only a partial recovery in 2010. Low inflation will put a damper on wage gains. Texas total personal income advanced by more than 7 percent a year for four years before slipping in 2008. Personal income is expected to grow by an average of only 3.8 percent per year in 2009 and 2010, with 2009 seeing the weakest growth.

Even with the economic engine cooling to only 0.8 percent real gross state product growth in 2009, the Texas economy should outpace the U.S. economy for the same reasons that it is outperforming the recessionary national economy today. These include continued net migration into the state, a Sunbelt location at the buckle of the nation's South and the West, an experienced workforce, a comparatively healthy housing market, a strategic geographic position for Latin American trade and a comparatively attractive cost of doing business.

Texas Revised Franchise Tax

The 79th Legislature, Third Called Session (2006) and the 80th Legislature (2007) revised the existing franchise tax to give property tax relief. House Bill 3 in the 2006 session and House Bill 3928 in the 2007 session amended the Texas Tax Code Chapter 171 and extended the coverage of the tax to include not only corporations and limited liability companies, but also certain partnerships, professional associations, joint ventures and business trusts, among others.

In addition to the broadening of the taxable entities, the bills contain changes to the tax base and tax rate. The tax base switched from taxable capital and earned surplus to taxable margin. The taxpayer may compute taxable margin in one of three ways. The calculation with the lowest result is then subject to an apportionment factor that is based on the share of total gross receipts generated in Texas. The result is the apportioned margin to which the new tax rate of 1 percent is applied. Most businesses in the retail and wholesale trade sectors, however, are subject to a lower rate of 0.5 percent.

The 2008-09 biennium will be the first in which the franchise tax is calculated on the taxable margin base. Estimated total (all funds) revenue for 2008-09 is $8.8 billion—54.4 percent more than the $5.7 billion collected in 2006-07. However, pursuant to House Bill 2 (79th Legislature, 3rd Called Session), only $5.6 billion in 2008-09 franchise tax revenue—the estimated amount that would have been collected under the previous franchise tax law—will be available for general-purpose spending. The remainder will be dedicated for school property tax relief.

In recognition of the Texas tax's unique nature and complexity—involving such non-standard concepts as "taxable margin" and "cost of goods sold"—the 80th Legislature (2007) established a Business Tax Advisory Committee to assist it in its evaluation of how the tax performs relative to the tax that it replaced. Key issues to be studied include the relative shares paid by industry type and business size, tax incidence, interstate comparisons, economic (e.g., investment and employment) effects and factors affecting compliance and revenue generation. The results will be published in biennial reports to be delivered to the governor, lieutenant governor and speaker of the house of representatives before each regular legislative session through Jan. 31, 2013.

Property Tax Value Limitations

In 2001, the 77th Legislature enacted House Bill 1200 creating Tax Code Chapter 313, the Texas Economic Development Act (Act). The Act allows school districts to attract new taxable property and assist in new job creation by offering a tax credit and an eight-year limitation on the appraised value of real and personal tangible property for the maintenance and operations portion of a school

district's tax rate. In exchange for the appraised value limitation and tax credit, a property owner is required to enter into an agreement with the school district to create a specific number of high-wage jobs and build or install specified types of real and personal property worth a certain amount.

To qualify, the property must be in a reinvestment zone and must be devoted to manufacturing, research and development, renewable energy generation, nuclear power generation, advanced clean energy projects or electric power generation using integrated gasification combined cycle technology. The amount of investment and the minimum amount of the value limitation varies according to whether the school district is considered a rural or non-rural district and according to the amount of taxable property value in the school district.

In 2007, the 80th Legislature enacted House Bill 1470 to extend the expiration date of major subchapters of the Act from Dec. 31, 2007, to Dec. 31, 2011. The bill also modified the process requiring economic evaluations of proposed projects. Starting in 2008, rather than local school districts engaging a third party to conduct such evaluations, the Comptroller of Public Accounts started conducting the evaluations. In House Bill 1470, the Legislature also gave local school districts authority to waive the minimum number of jobs required by the Act if that number (10 for rural districts and 25 for non-rural districts) exceeds the industry standard for that type of facility.

Other legislation from the 80th Legislature (House Bill 2994, House Bill 3693 and House Bill 3732) required the Comptroller to conduct a biennial study for the Legislature of the progress of all value limitation agreements. According to that analysis, as of June 2008, school districts had entered into 90 property tax limitation agreements reflecting an estimated $41 billion of investment over the lifetime of the agreements, with applicants proposing the creation of almost 5,600 jobs. The school district levy loss for the duration of the agreements was estimated to be over $2.1 billion. Thirty-five more new projects, representing an estimated investment of $12.6 billion, were scheduled to be considered by school districts during the fall of 2008.

Texas Smart Buy

The 80th Legislature reorganized procurement duties for the state and transferred the function to the Comptroller's office effective September 2007. The new Texas Procurement and Support Services Division at the Comptroller's office manages more than $1 billion of the state's contracts for goods and services on behalf of more than 180 state agencies and 1,700 local government agencies. With this level of activity, the state of Texas is one of the largest purchasing entities in the country.

The Comptroller's office launched Texas Smart Buy to maximize the state's purchasing leverage and to identify savings and cost avoidance opportunities. Examination of expenditures in five of the state's 175 spending categories yielded an initial savings of more than $28 million, which is an average of more than 8 percent of state spending in those categories. These initial efforts focused on expenditures for the state vehicle fleet, overnight/express mail, outgoing mail machines and asphalt purchases for road projects.

The next phase of the initiative resulted in the launch of a new online ordering system called TxSmartBuy. The new ordering system is an online shopping cart, similar to those found on retail Web sites, which will allow state agencies, public universities and local governments to search for goods and services, compare prices and specifications and order directly through the site, saving money by taking advantage of the state's bulk buying power.

Open Book Texas

In January 2007, the Comptroller's office began posting its expenditures online — down to the cost of pencils. Shortly thereafter, the posting grew to include expenditures for other state agencies. Building upon those efforts, the Comptroller's office created *Where the Money Goes*, an online database for viewing state agency spending. Expenditures in the database are searchable by vendor name, expenditure category or agency name.

By making spending data more transparent, efficiencies and savings can be identified more easily. The Comptroller's Office has saved $4.8 million and identified an additional $3.8 million in expected cost savings. Some

examples of the cost savings at the agency include saving $73,000 by consolidating multiple contracts for toner cartridges and establishing separate post office boxes to receive different types of tax payments, thereby avoiding having to spend $328,000 to buy and maintain a new mail sorter.

New Accounting Pronouncement

In 2004 the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This standard established new requirements for the recording of other postemployment benefits (OPEB) according to GAAP. In 2007 the 80th session of the Legislature passed House Bill 2365. The bill allows public entities in Texas the option to apply a statutory modified accrual basis of accounting for OPEB benefits.

As administrators of separate OPEB plans, the University of Texas System and the Texas A&M University System chose to implement GASB 45 in fiscal 2008. The first actuarial valuations in accordance with GASB 45 for these two single-employer defined benefit plans were completed in preparation for this implementation. As a result of these valuations, a net OPEB obligation and annual OPEB cost were calculated for these plans. The net OPEB obligation and related expense of these plans have been incorporated into the fiscal 2008 CAFR proprietary and government-wide financial statements.

GASB 45 valuations are based on the concept of a substantive plan. The substantive plan concept assumes that the current funding and structure of an OPEB plan will continue unchanged indefinitely. GASB 45 does not distinguish between those plans that have legally enforceable funding requirements and those to which the employer is not legally required to make contributions. The GASB does not require contributions to be made to an OPEB plan. GASB 45, however, does require plan employers to record actuarial liabilities related to future benefits. OPEB benefits are not legally guaranteed by the state of Texas for the plans the state administers. In addition, the Texas Constitution generally prohibits the creation of a debt or obligation beyond two years. The state's contributions for OPEB are determined each biennium during the legislative session. For these reasons, the state does not believe that an estimated net actuarial OPEB obligation represents a legal liability of the state and thus its inclusion in the state's financial statements may be misleading to the users of those statements. Despite these concerns, the state implemented GASB 45 in fiscal 2008.

The Employees Retirement System of Texas (ERS) administers the State Retiree Health Plan (SRHP), a cost-sharing multiple-employer defined benefit OPEB plan. The state of Texas is one of several employers and contributors to this plan. The plan covers OPEB for retired state employees (including all employees of public colleges except those in the University of Texas and Texas A&M University Systems), certain community colleges of the state, selected municipal districts and certain other employers. GASB 45 prescribes different accounting treatments for different types of plans. An employer in a cost-sharing multiple-employer plan is required to report OPEB liabilities and expenses in accordance with contractually required contributions (CRC). The CRC is established by the plan administrator and is not required to be based on the actuarial required contribution (ARC) of the plan. Currently the CRC for the SRHP is based on the annual pay-as-you-go costs of the plan benefits. The state of Texas contributions for fiscal 2008 equaled the annual CRC. Therefore, there is no resulting net OPEB obligation related to the SRHP to report on the government-wide financial statements.

The Teacher Retirement System of Texas (TRS) administers the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit OPEB plan. The plan covers the retired school district employees from more than 1,200 school districts in the state. The state of Texas is not an employer in the TRS-Care plan. The state, however, does help to partially fund the plan annual expenses through annual on-behalf contributions.

The special funding situation described in GASB 45 does not apply for the SRHP and TRS-Care plans because the state is not the only contributing entity in either plan.

Awards and Acknowledgments

Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Texas for its *Comprehensive Annual Financial Report* for the fiscal year ended Aug. 31, 2007. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized *Comprehensive Annual Financial Report* whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The state of Texas has received a Certificate of Achievement for the last 18 years (fiscal years ended August 1990 through 2007). We believe our current report continues to conform to the Certificate of Achievement Program requirements and we will be submitting it to the GFOA.

I will continue to maintain a highly qualified and professional staff to make this certification possible.

Acknowledgments

The preparation of this report requires the collective efforts of literally hundreds of financial personnel throughout state government, including the dedicated management and staff of my Financial Reporting section and Fiscal Management Division; the chief financial officers, chief accountants and their staff at each agency and the management and staff of the State Auditor's Office. I sincerely appreciate the dedicated efforts of all these individuals who continue to strive for improvements that will make Texas a national leader in quality financial reporting.

Sincerely,
Susan Combs

State of Texas Comprehensive Annual Financial Report

State of Texas Elected State Officials

Executive

Rick Perry
Governor

David Dewhurst
Lieutenant Governor

Susan Combs
Comptroller

Greg Abbott
Attorney General

Jerry Patterson
Land Commissioner

Todd Staples
Commissioner of Agriculture

Elizabeth Ames Jones
Victor G. Carrillo
Michael L. Williams
Railroad Commissioners

Legislative

Lieutenant Governor, David Dewhurst, President of the Senate

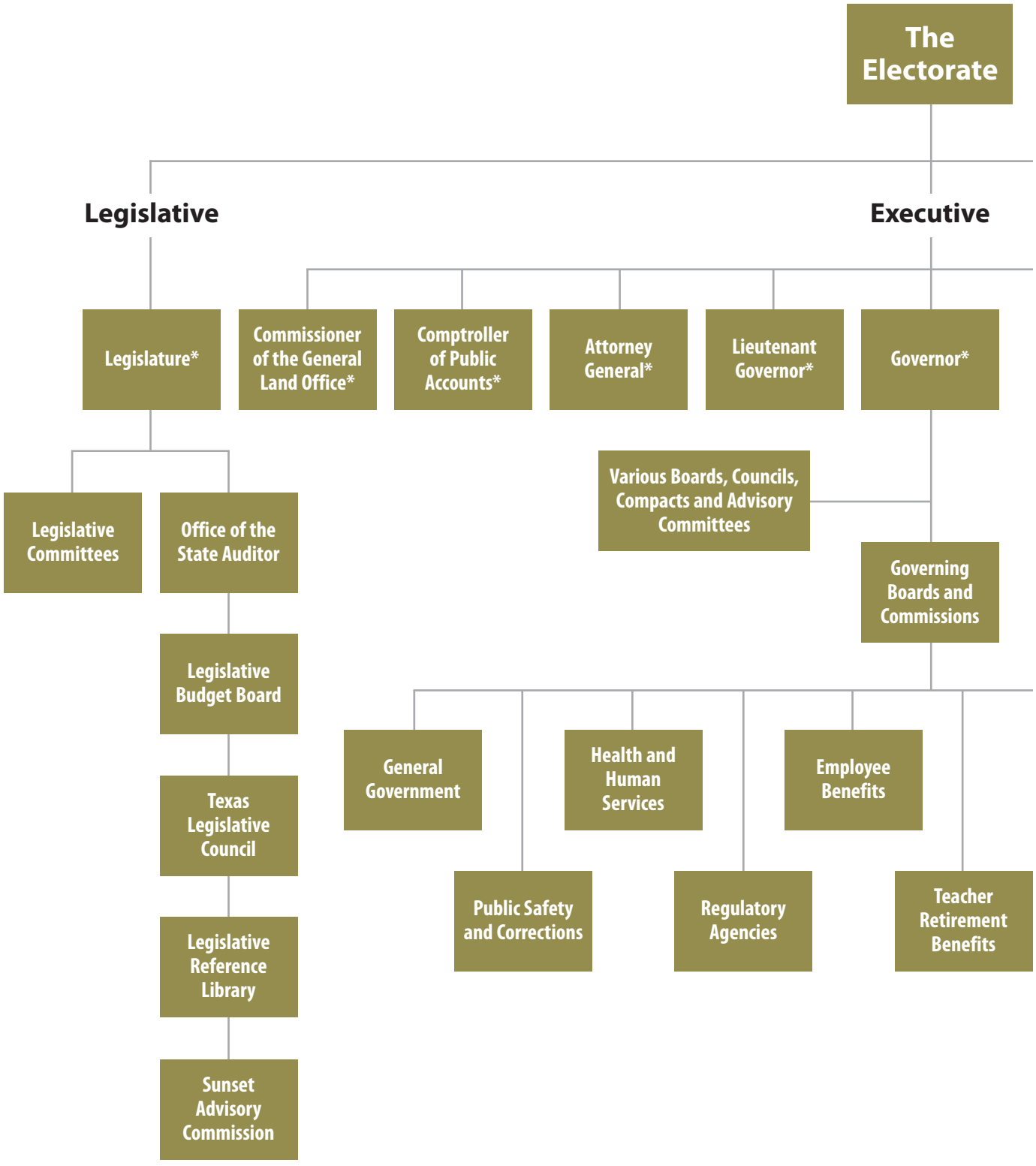
Joe Straus
Speaker of the House of Representatives

Judicial

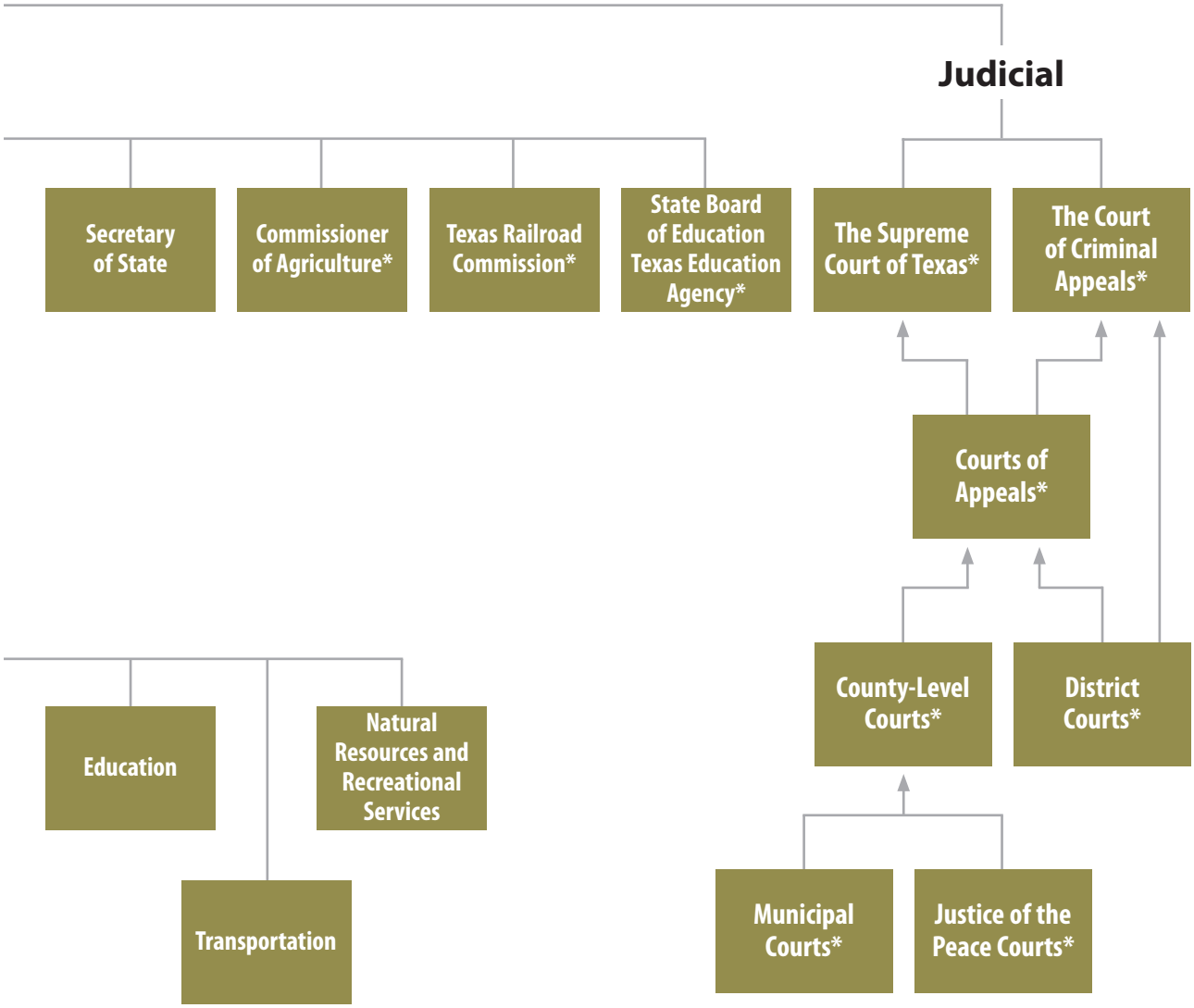
Wallace B. Jefferson
Chief Justice of the Supreme Court

Sharon Keller
Presiding Judge, Court of Criminal Appeals

Government Structure of Texas



* Elected Offices


Judicial
Secretary of State
Commissioner of Agriculture*
Texas Railroad Commission*
State Board of Education Texas Education Agency*
The Supreme Court of Texas*
The Court of Criminal Appeals*
Courts of Appeals*
County-Level Courts*
District Courts*
Municipal Courts*
Justice of the Peace Courts*
Education
Natural Resources and Recreational Services
Transportation

Certificate of Achievement for Excellence in Financial Reporting

Presented to

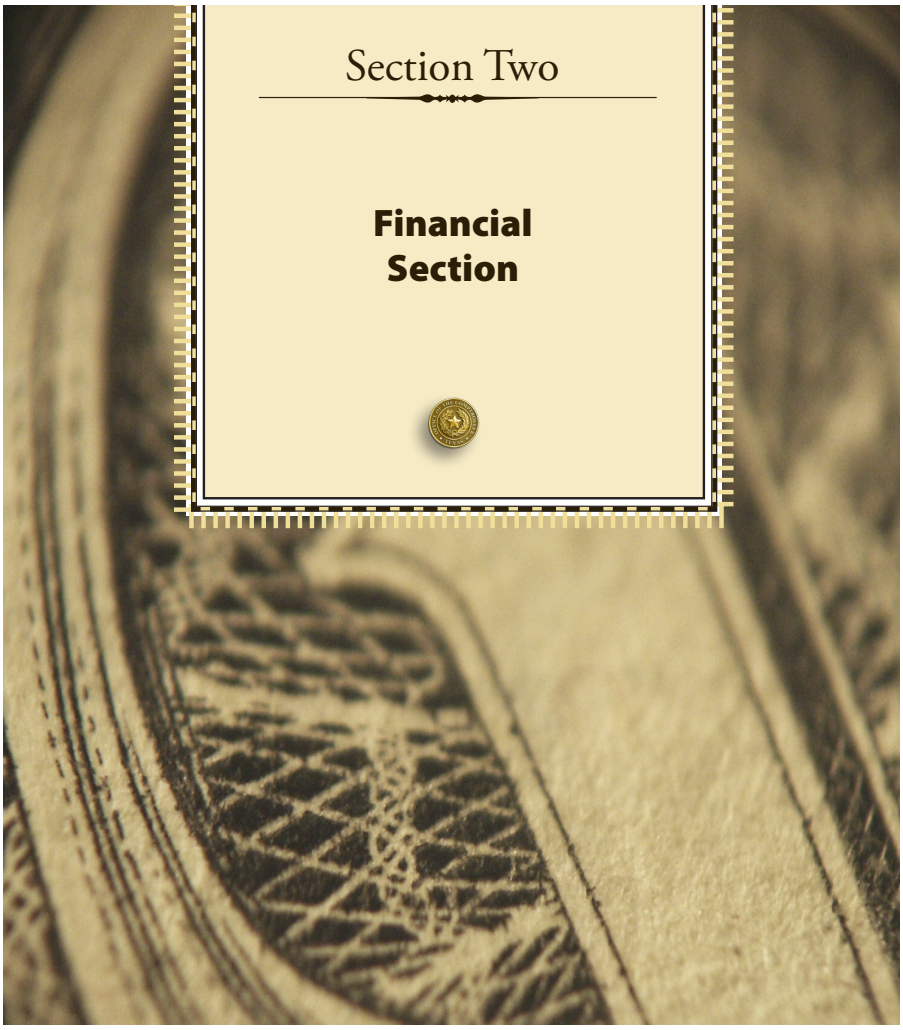
State of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director


Section Two
Financial
Section

State Auditor's Office
John Keel, CPA
State Auditor

INDEPENDENT AUDITOR'S REPORT

The Honorable Rick Perry, Governor
The Honorable Susan Combs, Comptroller of Public Accounts
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Joe Straus, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2008, which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State Comptroller of Public Accounts. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the following entities and fund:

- The University of Texas Investment Management Company (UTIMCO) and the University of Texas M.D. Anderson Cancer Center (UTMDACC), which constitute 55 and 9 percent, respectively, of the assets of Colleges and Universities, a major enterprise fund. UTIMCO and UTMDACC also constitute 41 and 6 percent, respectively, of the assets of the business-type activities.
- The Permanent School Fund, a major governmental fund, which constitutes 42 percent of the assets of the governmental activities.
- The Texas Local Governmental Investment Pool (TexPool), a blended component unit, which constitutes 9 percent of the assets of the aggregate discretely presented component unit and remaining fund information, which primarily consists of fiduciary funds.

The financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities and TexPool, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of UTIMCO, UTMDACC, and TexPool were not audited in accordance with

Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

P.O. Box 12067
Austin, Texas 78711-2067

Phone:
(512) 936-9500

Fax:
(512) 936-9400

Internet:
www.sao.state.tx.us

SAO No. 09-327

Government Auditing Standards. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of August 31, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

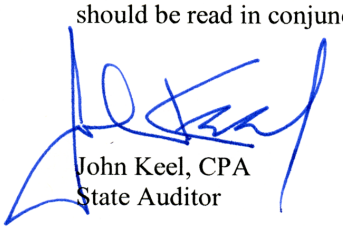
The management's discussion and analysis, the budgetary comparison schedule, the modified approach to reporting infrastructure assets, and the schedules of funding progress are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This required supplementary information is the responsibility of the State Comptroller of Public Accounts. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining financial statements, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These financial statements are also the responsibility of the State Comptroller of Public Accounts. This supplemental information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We did not audit the introductory section or the statistical section and, accordingly, we express no opinion on them.

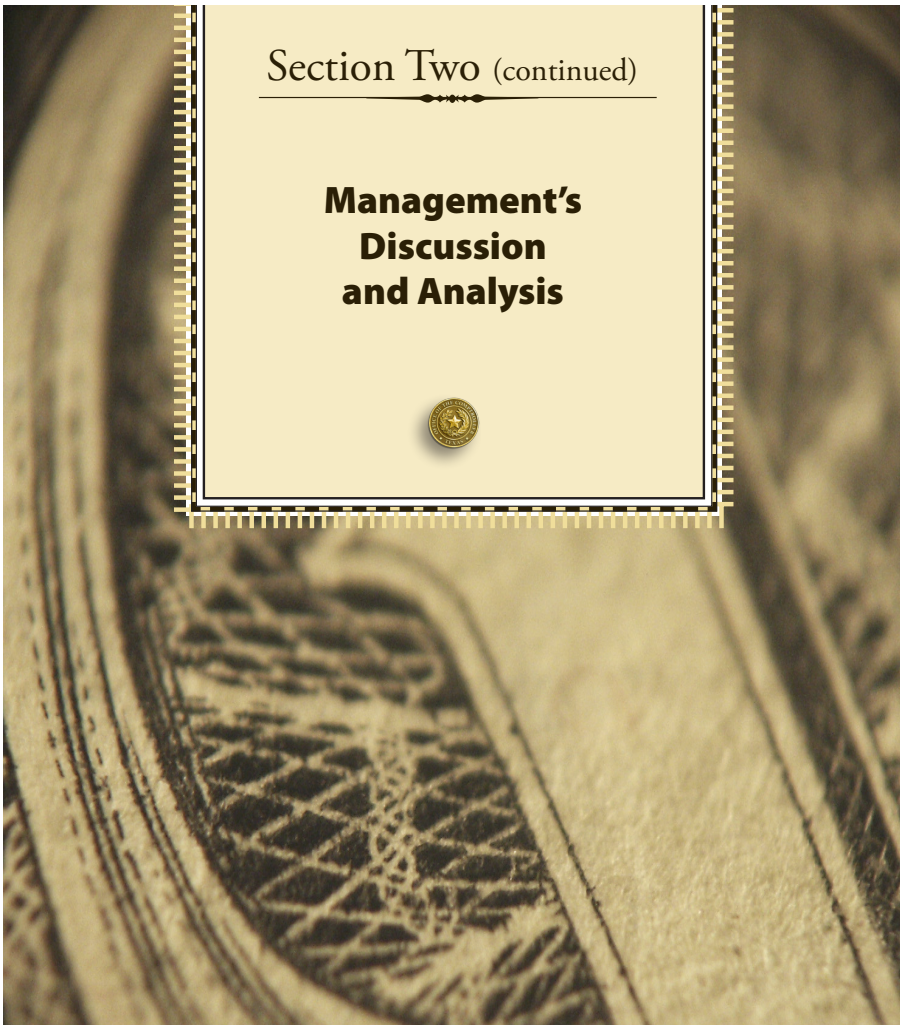
In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of the State's compliance with certain provisions of laws, regulations, contracts, and grants and on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



John Keel, CPA
State Auditor

February 20, 2009



Section Two (continued)

Management's Discussion and Analysis

Management's Discussion and Analysis

The following is a discussion and analysis of the state of Texas' financial performance for the fiscal year ended Aug. 31, 2008. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2008 report.

Highlights

Government-wide

Net Assets

The assets of the state of Texas exceeded its liabilities by $142.8 billion as of Aug. 31, 2008, an increase of $1.6 billion or 1.1 percent from fiscal 2007.

Fund Level

Governmental Funds

As of Aug. 31, 2008, the state's governmental funds reported a combined ending fund balance of $44 billion, an increase of $1.6 billion or 3.9 percent from fiscal 2007. The state reported a positive unreserved fund balance of $13.6 billion in fiscal 2008.

Proprietary Funds

The proprietary funds reported net assets of $42.2 billion as of Aug. 31, 2008, a decrease of $746 million or 1.7 percent from fiscal 2007.

Long-Term Debt

The state's total bonds outstanding increased by $3.8 billion or 15.5 percent during fiscal 2008 for governmental and business-type activities. This amount represents the net difference between net issuances, payments and refunding of outstanding bond debt. During the fiscal year, the state issued bonds totaling $6.3 billion. More detailed information regarding the government-wide, fund level and long-term debt activities can be found in the debt administration section of this management's discussion and analysis (MD&A).

Overview of the Financial Statements

The focus of this report is on reporting for the state as a whole and on the major individual funds. The report presents a more comprehensive view of the state's financial activities and makes it easier to compare the performance of Texas state government to that of other governments.

The Financial Section of this annual report presents the state's financial activities and position in four parts-(1) MD&A (this part), (2) the basic financial statements, (3) required supplementary information other than MD&A and (4) other supplementary information presenting combining statements. The report also includes statistical and economic data.

The basic financial statements include government-wide financial statements, fund financial statements and notes to financial statements that provide more detailed information to supplement the basic financial statements.

Reporting on the State as a Whole

The government-wide financial statements are designed to present an overall picture of the financial position of the state. These statements consist of the statement of net assets and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private-sector companies.

The statement of net assets combines and consolidates the government's current financial resources with capital assets and long-term obligations. This statement includes all of the government's assets and liabilities.

Net assets, which are the difference between the state's assets and liabilities, represent one measure of the state's financial health.

Other indicators of the state's financial health include the condition of its roads and highways (infrastructure) and economic trends affecting the state's future tax revenues.

The statement of activities focuses on both the gross and net cost of various activities (governmental, business-

type and component units); these costs are paid by the state's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The government-wide statement of net assets and the statement of activities divide the state's activities into three types.

Governmental Activities

The state's basic services are reported here, including general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreation and regulatory services. Taxes, fees and federal grants finance most of these activities.

Business-Type Activities

Activities for which the state charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The state's colleges and universities are included as business-type activities.

Component Units

Component units are legally separate organizations for which the state is either financially accountable or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. These entities are reported in a separate column in the government-wide financial statements. The state includes 17 separate legal entities in the notes to this report.

Reporting on the State's Most Significant Funds

Fund financial statements provide additional detail about the state's financial position and activities. Some information presented in the fund financial statements differs from the government-wide statements due to the perspective and basis of accounting used. Funds are presented on the fund level statements as major or nonmajor based on criteria set by the Governmental Accounting Standards Board (GASB).

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

Governmental Funds

A majority of the state's activity is reported in governmental funds. Reporting of these funds focuses on how money flows into and out of the funds and amounts remaining at year end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information should help determine the level of resources available for the state's programs. The reconciliation following the fund financial statements explains the differences between the government's activities, reported in the government-wide statement of net assets and the government-wide statement of activities, and the governmental funds. The general fund, state highway fund and permanent school fund are reported as major governmental funds.

Proprietary Funds

When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements, but are reported here to provide information at the fund level.

Services provided by one program of the state to another are reported in internal service funds, the other component of proprietary funds. The state's employees' life, accident and health insurance benefits fund is reported as the only internal service fund.

Colleges and universities, Texas Water Development Board funds and the Texas Department of Transportation Turnpike Authority are shown as major proprietary funds.

Reporting on the State's Fiduciary Responsibilities

The state is the trustee or fiduciary for six defined benefit plans and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate statements of fiduciary net assets and changes in fiduciary net assets. The activities are reported separately from other financial activities because the state cannot use the assets to finance state operations. The state's fiduciary responsibilities include ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the State as a Whole

Net Assets

Total assets of the state on Aug. 31, 2008, were $210.8 billion, an increase of $13.6 billion or 6.9 percent. Total liabilities as of Aug. 31, 2008, were $68 billion, an increase of $12 billion or 21.5 percent. Net assets were affected by a number of factors. Cash and cash equivalents grew $12.9 billion from fiscal 2007 while investments decreased $2.6 billion. The cash and cash equivalent growth was increased by $10.3 billion from two sources, the issuance of tax and the revenue anticipation notes and the receipt of concessions for highway rights by the Texas Department of Transportation. An increase in total liabilities of $12 billion is also primarily due to these two factors. Net capital

Statement of Net Assets

August 31, 2008 and 2007 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
ASSETS						
Assets Other Than Capital Assets	$ 70,107,763	$ 59,609,496	$ 55,324,352	$ 57,302,088	$ 125,432,115	$ 116,911,584
Capital Assets	67,326,888	63,802,726	18,041,575	16,482,661	85,368,463	80,285,387
Total Assets	137,434,651	123,412,222	73,365,927	73,784,749	210,800,578	197,196,971
LIABILITIES						
Current Liabilities	24,613,778	15,627,216	10,783,876	11,521,853	35,397,654	27,149,069
Noncurrent Liabilities	12,149,685	9,434,902	20,429,743	19,364,288	32,579,428	28,799,190
Total Liabilities	36,763,463	25,062,118	31,213,619	30,886,141	67,977,082	55,948,259
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	58,207,920	56,438,132	7,384,503	7,342,429	65,592,423	63,780,561
Restricted	31,358,171	29,346,612	24,882,981	25,815,068	56,241,152	55,161,680
Unrestricted	11,105,097	12,565,360	9,884,824	9,741,111	20,989,921	22,306,471
Total Net Assets	$ 100,671,188	$ 98,350,104	$ 42,152,308	$ 42,898,608	$ 142,823,496	$ 141,248,712

assets increased $5.1 billion from additions to the state's highway system and college and university construction projects. There was an increase in total bond debt of $3.7 billion as well. The net asset balance was $142.8 billion in fiscal 2008, an increase of $1.6 billion or 1.1 percent. Of the state's net assets, $65.6 billion were invested in capital assets, net of related debt, while $56.2 billion were restricted by statute or other legal requirements and were not available to finance day-to-day operations of the state. Unrestricted net assets were $21 billion. The state's bonded indebtedness was $27.6 billion, which included new issuances of $6.3 billion in state bonds to finance new construction, housing, water conservation and other projects. Approximately $2.6 billion in bonded debt was retired or refunded.

Changes in Net Assets

The state earned program revenues of $54.4 billion and general revenues of $44.9 billion, for total revenues of $99.3 billion, a decrease of $4.7 billion or 4.6 percent. The major components of this decrease were operating grants and contributions where education functions saw declines totaling $9.4 billion, primarily from interest and investment income losses. Tax revenues, however, offset some of the loss as there was an increase of $4.3 billion in collections over the prior year. There also was a reclassification from proprietary funds to component unit presentation related to the Teacher Retirement System, as explained further in Note 14, Adjustments to Fund Balances/Net Assets.

The expenses of the state were $97.2 billion, an increase of $6.7 billion or 7.4 percent. The expense fluctuations in governmental activities are largely attributable to the health and human services function and education function, due to increased state funding for local school districts to offset local property tax reductions and increases to the Children's Health Insurance Program. In the business-type activities, colleges and universities expenses were the largest increase. Other proprietary entities showed relatively stable activity levels between the prior and current years.

As a result of revenues exceeding expenses, the state's total net assets increased by $2.1 billion, a decrease of $11.3 billion from the previous year's increase of $13.4 billion. Revenues and expenses of the state's governmental and business-type activities are detailed on the following page.

Further discussion of results for improvement in the state's financial condition follows in the analysis of the state's funds. Economic strength through most of the year, plus legislative changes, brought higher tax revenues and fees. The largest benefactors were education, where teachers received pay raises, and health and human services, where urban and rural hospitals received additional state funding.

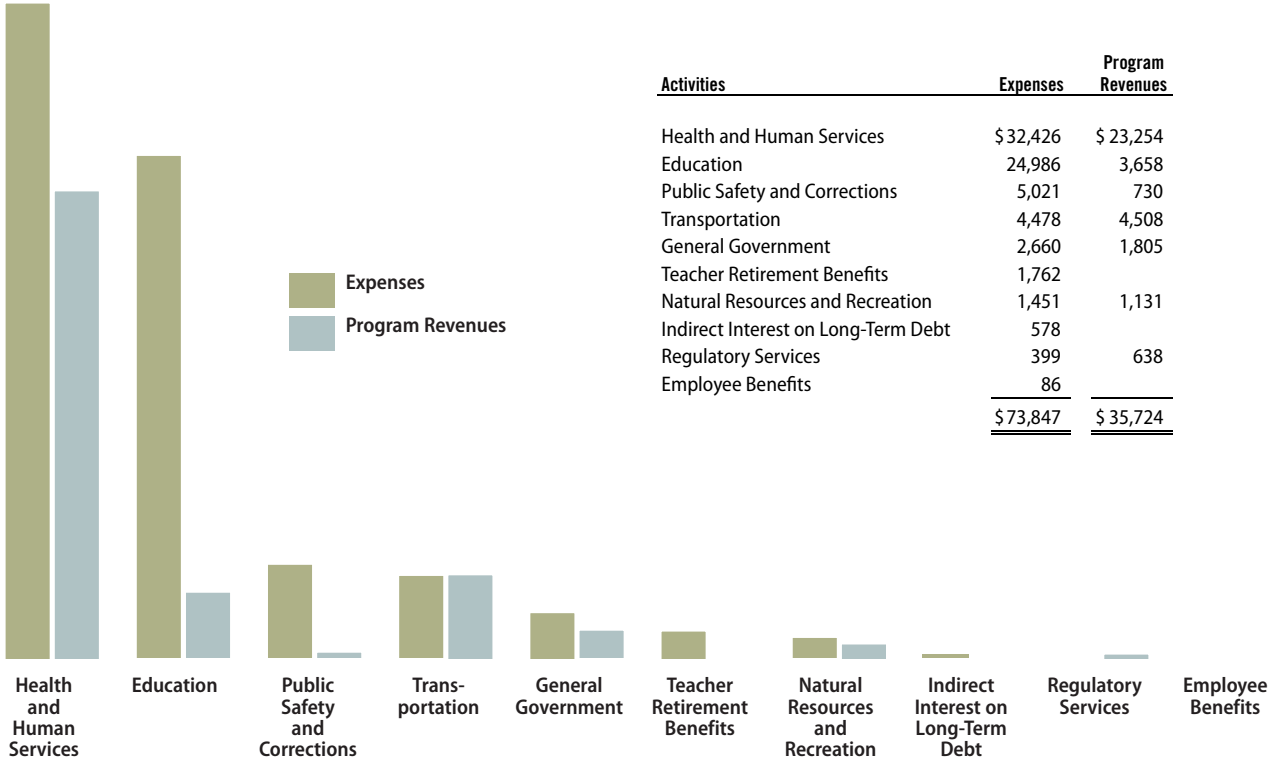
Changes in Net Assets

For the Fiscal Years Ended August 31, 2008 and 2007 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
REVENUES						
Program Revenues:						
Charges for Services	$ 7,239,392	$ 7,485,972	$13,658,706	$14,831,991	$ 20,898,098	$ 22,317,963
Operating Grants and Contributions	25,900,072	29,995,409	4,808,580	9,001,427	30,708,652	38,996,836
Capital Grants and Contributions	2,585,507	1,823,686	245,962	197,731	2,831,469	2,021,417
Total Program Revenues	35,724,971	39,305,067	18,713,248	24,031,149	54,438,219	63,336,216
General Revenues:						
Taxes	41,419,231	37,071,589			41,419,231	37,071,589
Unrestricted Investment Earnings	1,041,840	941,938	190,974	245,977	1,232,814	1,187,915
Settlement of Claims	555,476	538,836	6	283	555,482	539,119
Gain on Sale of Capital Assets		3,942	270	13,363	270	17,305
Other General Revenues	1,392,565	1,627,330	270,786	266,722	1,663,351	1,894,052
Total General Revenues	44,409,112	40,183,635	462,036	526,345	44,871,148	40,709,980
Total Revenues	80,134,083	79,488,702	19,175,284	24,557,494	99,309,367	104,046,196
EXPENSES						
General Government	2,659,822	2,555,309	177,012	186,628	2,836,834	2,741,937
Education	24,986,076	21,313,526	18,619,716	17,165,602	43,605,792	38,479,128
Employee Benefits	86,195	61,171			86,195	61,171
Teacher Retirement Benefits	1,761,759	2,017,000		909,845	1,761,759	2,926,845
Health and Human Services	32,426,046	30,886,484	1,467,185	1,204,609	33,893,231	32,091,093
Public Safety and Corrections	5,020,897	5,035,761	80,607	75,305	5,101,504	5,111,066
Transportation	4,478,109	4,252,129	164,280	125,910	4,642,389	4,378,039
Natural Resources and Recreation	1,451,450	1,217,201	247,018	283,653	1,698,468	1,500,854
Regulatory Services	398,885	314,266			398,885	314,266
Indirect Interest on Long-Term Debt	578,059	229,354			578,059	229,354
Lottery			2,634,446	2,691,210	2,634,446	2,691,210
Total Expenses	73,847,298	67,882,201	23,390,264	22,642,762	97,237,562	90,524,963
Excess (Deficiency) Before Contributions, Special Items and Transfers	6,286,785	11,606,501	(4,214,980)	1,914,732	2,071,805	13,521,233
Capital Contributions	8,653	309		1,364	8,653	1,673
Contributions to Permanent and Term Endowments			167,692	184,193	167,692	184,193
Special Items			(150,026)	(318,813)	(150,026)	(318,813)
Transfers	(3,909,529)	(3,383,910)	3,909,529	3,383,910		
Change in Net Assets	2,385,909	8,222,900	(287,785)	5,165,386	2,098,124	13,388,286
Net Assets, Beginning Balance	98,350,104	90,162,159	42,898,608	37,739,272	141,248,712	127,901,431
Restatements	(64,825)	(34,955)	(458,515)	(6,050)	(523,340)	(41,005)
Net Assets, Beginning Balance, as Restated	98,285,279	90,127,204	42,440,093	37,733,222	140,725,372	127,860,426
Net Assets, Ending Balance	$100,671,188	$98,350,104	$42,152,308	$42,898,608	$142,823,496	$141,248,712

Expenses and Program Revenues: Governmental Activities

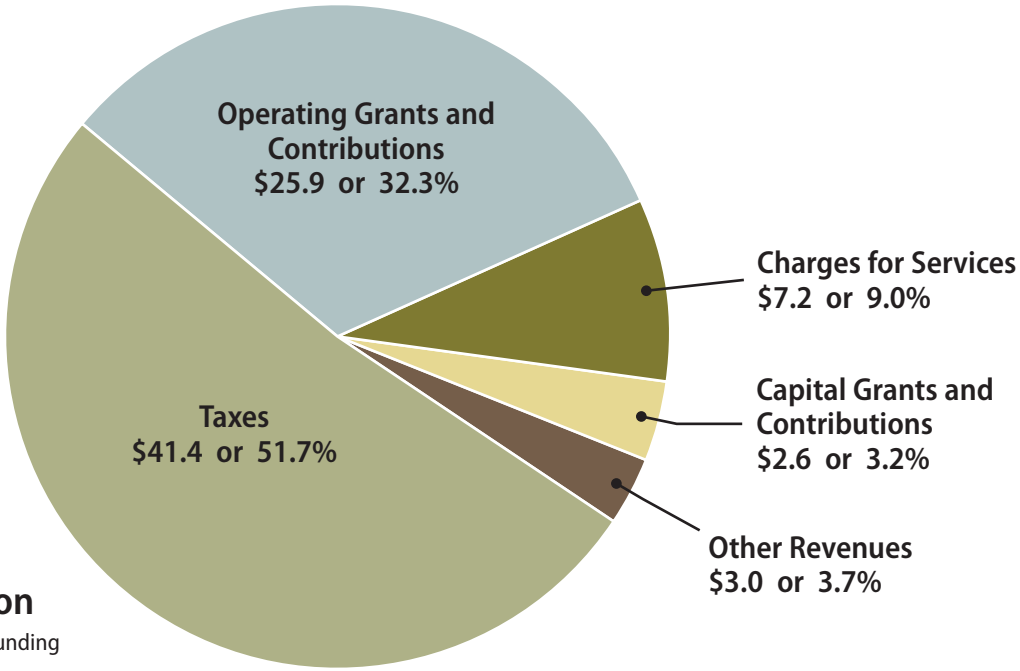
For the Fiscal Year Ended August 31, 2008 (In Millions)



Activities	Expenses	Program Revenues
Health and Human Services	$ 32,426	$ 23,254
Education	24,986	3,658
Public Safety and Corrections	5,021	730
Transportation	4,478	4,508
General Government	2,660	1,805
Teacher Retirement Benefits	1,762	
Natural Resources and Recreation	1,451	1,131
Indirect Interest on Long-Term Debt	578	
Regulatory Services	399	638
Employee Benefits	86	
	$ 73,847	$ 35,724

Revenue by Source: Governmental Activities

For the Fiscal Year Ended August 31, 2008 (In Billions)*

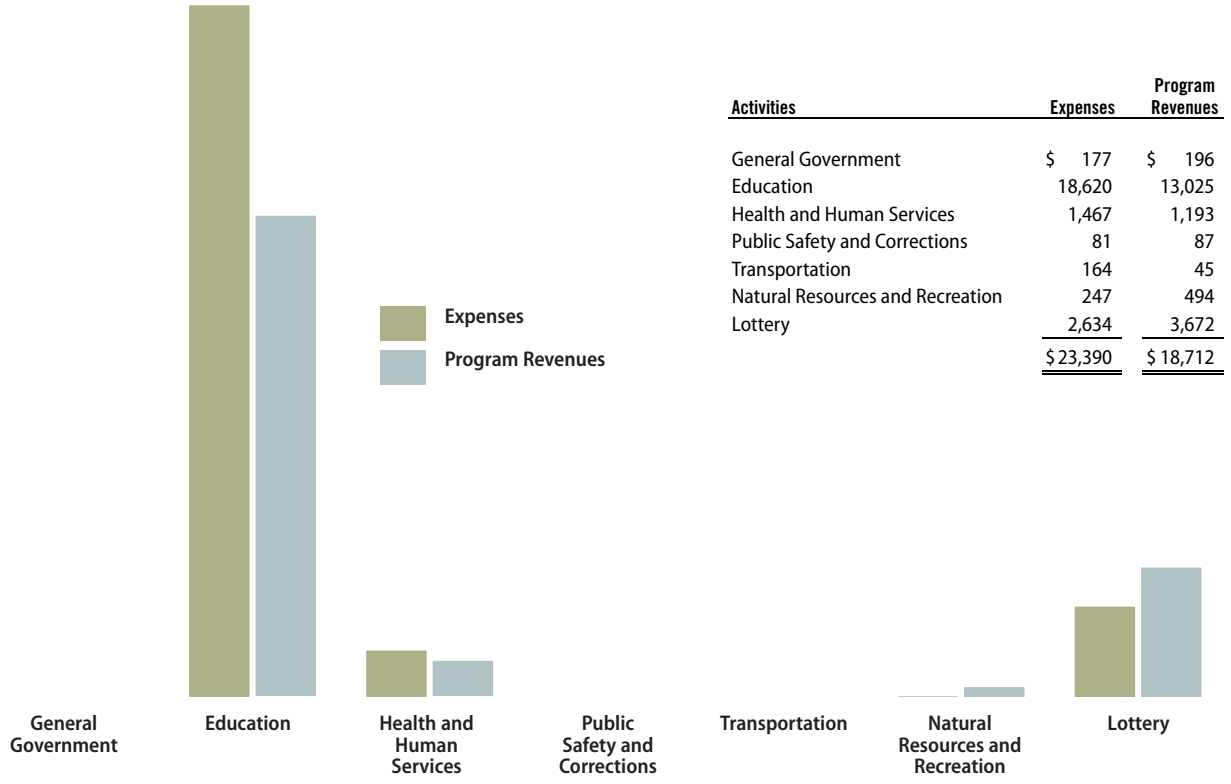


Total = $80.1 Billion

* Totals may not add due to rounding

Expenses and Program Revenues: Business-Type Activities

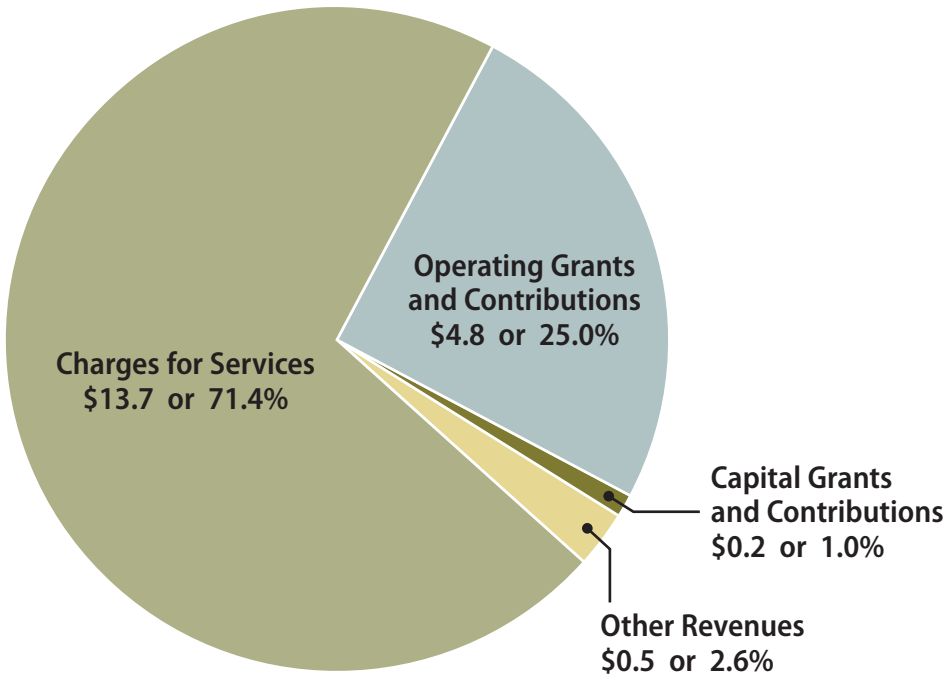
For the Fiscal Year Ended August 31, 2008 (In Millions)



Activities	Expenses	Program Revenues
General Government	$ 177	$ 196
Education	18,620	13,025
Health and Human Services	1,467	1,193
Public Safety and Corrections	81	87
Transportation	164	45
Natural Resources and Recreation	247	494
Lottery	2,634	3,672
	$ 23,390	$ 18,712

Revenue by Source: Business-Type Activities

For the Fiscal Year Ended August 31, 2008 (In Billions)*


Operating Grants and Contributions $4.8 or 25.0%
Charges for Services $13.7 or 71.4%
Capital Grants and Contributions $0.2 or 1.0%
Other Revenues $0.5 or 2.6%

Total = $19.2 Billion

* Totals may not add due to rounding

Governmental Activities

The governmental activities program revenue is $35.7 billion, including charges for services of $7.2 billion, operating grants and contributions of $25.9 billion and $2.6 billion reported in capital grants and contributions. The largest decrease, $4.1 billion, was for charges for operating grants and services, which includes losses in interest and investment income. The largest changes in general revenue sources were attributable to taxes where there were increases in revenues from sales taxes, franchise taxes and oil and natural gas production taxes.

Governmental activities expenses were $73.8 billion. All functions of governmental activities in the government-wide statement of activities have a net cost, except transportation and regulatory services functions that report slight surpluses. Education and health and human services functions together account for 77.7 percent of governmental activities expenses and $30.5 billion of the net cost. The tax collections of the state provide the primary source of funding, which added to program revenues, support payment for the governmental services.

Net Cost (Income) of the State's Governmental Activities

For the Fiscal Year Ended August 31, 2008
(Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	$ 2,659,822	$ 854,512
Education	24,986,076	21,328,046
Employee Benefits	86,195	86,088
Teacher Retirement Benefits	1,761,759	1,761,759
Health and Human Services	32,426,046	9,171,731
Public Safety and Corrections	5,020,897	4,290,869
Transportation	4,478,109	(29,472)
Natural Resources and Recreation	1,451,450	320,166
Regulatory Services	398,885	(239,431)
Indirect Interest on Long-Term Debt	578,059	578,059
Total	$73,847,298	$38,122,327

Net Cost (Income) of the State's Business-Type Activities

For the Fiscal Year Ended August 31, 2008
(Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	$ 177,012	$ (19,271)
Education	18,619,716	5,595,092
Health and Human Services	1,467,185	273,886
Public Safety and Corrections	80,607	(6,758)
Transportation	164,280	119,389
Natural Resources and Recreation	247,018	(247,336)
Lottery	2,634,446	(1,037,986)
Total	$23,390,264	$ 4,677,016

Business-Type Activities

Business-type activities generated program revenue of $18.7 billion, including charges for services of $13.7 billion, operating grants and contributions of $4.8 billion and $246 million reported in capital grants and contributions. The total expenses for business-type activities were $23.4 billion. There was a total net loss from the government's business-type activities of $287.8 million in comparison to the prior year's net gain of $5.2 billion. The largest change occurred in the college and university sector, which encountered interest and investment losses. The net cost for the education function accordingly increased $5.1 billion over the prior year.

Financial Analysis of the State's Funds

Governmental Funds

As of Aug. 31, 2008, governmental funds reported fund balances of $44 billion. Of this total amount, $13.6 billion constitutes unreserved fund balances and $30.4 billion reserved fund balance. The general fund reported a positive $8.2 billion unreserved balance.

General Fund

The fund balance for the general fund as of Aug. 31, 2008, was $10.7 billion, a decrease of $181.2 million from the $10.8 billion balance in fiscal 2007. As discussed in Budgetary Highlights, an increase in tax collections of $3.4 billion was largely attributable to sales, oil and natural gas and franchise taxes. Expenditures related to education and

health care showed increases of $4 billion and $1.5 billion, respectively.

The increase in education expenditures was principally due to property tax relief and corresponding increases in state funding allowing for increased payments to local school districts.

State Highway Fund

The fund balance for the state highway fund as of Aug. 31, 2008, was $778.5 million, an increase of $766.3 million from $12.2 million as of Aug. 31, 2007. An increase of $777.2 million in federal revenues from $2 billion in federal revenues over the prior year was the largest factor for this increase. Cash equivalents and deferred revenues increased significantly as $3.2 billion was received from both public and private sources for the 'right' to build and operate toll roads for a specified period of time. These concession revenues will be amortized over the lives of the separate agreements.

Permanent School Fund

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2008, totaled $25.2 billion, a decrease of $1.5 billion, or 5.8 percent, since Aug. 31, 2007. This decrease was primarily attributable to the decrease in the fair value of investments, consistent with the decrease in value of the markets in which investments were made. Value in the fund provided $716.5 million in transfers to provide funding for public education. A second way the PSF supports the state's public school system is through a Bond Guarantee Program, where the PSF is pledged to guarantee bonds issued by Texas school districts, enhancing their credit rating. As of Aug. 31, 2008, $49.9 billion in school district bond issues were guaranteed. The capacity to guarantee bonds is limited by both Internal Revenue Service ruling and state law to two and a half times the cost or market value of the fund, whichever is lower.

Proprietary Funds

Proprietary funds reported net assets of $42.2 billion as of Aug. 31, 2008, a decrease of $746.3 million from fiscal 2007. Colleges and universities, Texas Water Development Board funds and the Texas Department of Transportation Turnpike Authority are discussed separately. In addition, the Texas Workforce Commission unemployment trust fund accounts realized a net asset decrease of $235.1 million as unemployment taxes dropped $607.1 million and benefit payments increased $283.4 million over the prior year.

As explained in Note 14 there has been a change in the reporting of the Teacher Retirement System of Texas, which has been moved and is now being reported as a discrete component unit.

Colleges and Universities

Colleges and universities' net assets as of Aug. 31, 2008, totaled $36.5 billion, a decrease of $313.5 million from Aug. 31, 2007. There was a decline in investment holdings of $1.4 billion as financial and credit conditions weakened. In addition, there were increases in operating expenses of $1.8 billion, as well as interest and investment losses of $4.2 billion.

Texas Water Development Board Funds

The Texas Water Development Board funds net assets totaled $2.3 billion as of Aug. 31, 2008, an increase of $216.7 million from $2.1 billion as of Aug. 31, 2007. During fiscal 2008, federal revenues of $154.6 million and investment income of $176.5 million accounted for virtually all of the additions to the funds. The increase in net assets is the result of an increased number of underlying loans in clean water and drinking water state revolving fund programs, which are provided through federal capitalization grants and for the clean water program only, revenue bond proceeds. Funds are primarily used to provide financial assistance to political subdivisions for water development, water quality enhancement and flood control projects.

Texas Department of Transportation Turnpike Authority

Net assets for the Texas Department of Transportation Turnpike Authority totaled $757.4 million as of Aug. 31, 2008, a decrease of $48 million from Aug. 31, 2007,

largely due to increases in operating expenses. The largest portion of the Turnpike Authority's total assets, $2.6 billion or 82.1 percent, consists of completed highway projects or those under construction.

Fiduciary Funds

Fiduciary funds reported $148.1 billion in net assets as of Aug. 31, 2008, a decrease of $8.9 billion from $157 billion in fiscal 2007.

Pension and Other Employee Benefit Trust Funds

Total net assets for pension and other employee benefit trust funds were $127.7 billion, a decrease of $9.6 billion from the $137.3 billion reported in fiscal 2007. The majority of plan assets are held as investments for the pension funds. The overall financial condition of the pension fund retirement plans declined during fiscal 2008. Although interest and investment losses in the volatile market were offset by increased member, state and employer contributions, there were increases in benefit payments by $793.8 million. The return for investments for the state's two largest pension systems, the Teacher Retirement System of Texas and the Employees Retirement System of Texas, was a negative 4.5 percent and a negative 4.6 percent, respectively, compared to the previous year's return percents of 14.4 and 13.9 percent.

External Investment Trust Fund

The external investment trust fund reported total net assets of $17.4 billion in fiscal 2008, an increase of $922.1 million from the $16.5 billion reported in fiscal 2007. The increase is due to increased client participation. This offset declines in interest and investment income from lower market yields. The Texas Government Investment Pool Trust Fund is the only external investment trust fund.

Private-Purpose Trust Funds

Total net assets for private-purpose trust funds were $3 billion in fiscal 2008, a decrease of $235.9 million or 7.2 percent from fiscal 2007. Decreases to net assets were due to a combination of factors including lower rates of return on investments, as well as decreases to average monthly asset balances on which interest earnings were made.

Budgetary Highlights

Variances for the General Fund

The differences from original and final revenue budgets are due to both economic and legislative reasons. Actual results for revenues produced an additional $453.8 million above the final budget number. The most positive revenue variance occurred with tax revenues, showing a $1.7 billion difference, actual over budget. Due to economic strength for most of the year the state was able to show overall growth in tax collections. There were increases in all tax categories except for a slight decrease in motor fuels taxes. However, sales tax, franchise tax and oil and natural gas production taxes all reported increases over $1.3 billion above the prior year.

Expenditure variances by function were also positive after year-end. Revisions were made to original budget amounts increasing expenditures in major functions for education, health and human services and public safety and corrections. Legislative action increased the state's share of funding for local school districts, primarily due to property tax reductions for the districts. Increases for health and human services are due to increases in caseloads (number of clients) and costs, as well as rate restorations and increases in Medicaid and the Children's Health Insurance Program.

Capital Assets – Net of Depreciation

August 31, 2008 and 2007 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Land and Land Improvements	$ 7,821,911	$ 7,278,244	$ 1,433,552	$ 1,274,455	$ 9,255,463	$ 8,552,699
Infrastructure	51,421,225	48,397,641	2,319,281	1,900,120	53,740,506	50,297,761
Construction in Progress	4,654,259	4,623,788	1,950,376	2,041,057	6,604,635	6,664,845
Buildings and Building Improvements	2,457,155	2,542,910	9,467,729	8,545,156	11,924,884	11,088,066
Facilities and Other Improvements	84,138	84,117	650,362	613,234	734,500	697,351
Furniture and Equipment	239,353	255,122	1,347,891	1,251,007	1,587,244	1,506,129
Vehicles, Boats and Aircraft	415,266	389,098	65,306	50,029	480,572	439,127
Other Capital Assets	233,581	231,806	807,078	807,603	1,040,659	1,039,409
Total Capital Assets	$67,326,888	$63,802,726	$18,041,575	$16,482,661	$85,368,463	$80,285,387

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2008, the state had $85.4 billion in net capital assets, of which $53.7 billion was infrastructure, primarily highway construction projects. This total represents an increase of $5.1 billion in net capital assets or 6.3 percent from fiscal 2007. The state's capital assets include land and land improvements, infrastructure, construction in progress, buildings and building improvements, facilities and other improvements, furniture and equipment, vehicles, boats and aircraft and other capital assets. Details of capital assets are shown in Note 2.

Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the government-wide statements.

The state accounts for its system of roads and highways using the modified approach allowed by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Texas Department of Transportation (TxDOT) has developed a system of management, the Texas Maintenance Assessment Program (TxMAP), which is designed to maintain the service delivery potential of the state's roads and highways to near perpetuity.

The state's policy is to maintain its interstate highways at a condition level of 80 percent, its non-interstate highways (farm-to-market and other road systems) at a condition level of 75 percent and 80 percent for the Central Texas Turnpike System. The condition assessment results for fiscal 2008 reflect condition levels of 83.7 percent (84.1 percent in fiscal 2007) for the interstate system, 79 percent (79.5 percent for fiscal 2007) for the non-interstate system and 91.7 percent for the Central Texas Turnpike System (fiscal 2008 is first year of assessment).

In fiscal 2008, the estimated maintenance expenditures that will be required to maintain the highway system at or above the adopted condition levels for interstate highways were $502.1 million, $2.5 billion for the Non-Interstate system and $6.9 million for the Central Texas Turnpike System. Actual expenditures were $438.2 million for the Interstate system, $1.6 billion for the Non-Interstate system and $5.4 million for the Central Texas Turnpike System. Additional information on the state's road and highway infrastructure is presented in the financial section's required supplementary information other than MD&A.

Debt Administration

The state of Texas issues both general obligation bonds and revenue bonds. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution. Most revenue bonds are designed to be self-supporting from a primary revenue source related to the program financed.

Outstanding Bonded Debt

August 31, 2008 and 2007 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds Payable	$ 8,060,709	$ 6,756,893	$ 2,707,763	$ 2,775,467	$10,768,472	$ 9,532,360
Revenue Bonds Payable	3,444,984	2,030,739	13,369,971	12,304,358	16,814,955	14,335,097
Total Bonds Payable	$11,505,693	$ 8,787,632	$16,077,734	$15,079,825	$27,583,427	$23,867,457

The state's general obligation bond issues are rated Aa1 by Moody's Investors Service, AA by Standard & Poor's Corporation and AA+ by Fitch as of August 2008. During fiscal 2008, Texas' state agencies and universities issued $6.3 billion in state bonds to finance new construction, housing, water conservation and treatment and other projects. General obligation debt accounted for $2.3 billion of state bonds issued in fiscal 2008. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining $4 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were composed of $413.3 million in general obligation bonds and $690.5 million in revenue bonds. Also, $665.4 million in general obligation bonds and $791.8 million in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2008, was $10.8 billion. This represents an increase of $1.2 billion or 13 percent from fiscal 2007. An additional $8.1 billion of general obligation bonds have been authorized but have not been issued. Total revenue bonds outstanding were $16.8 billion, which is an increase of $2.5 billion or 17.3 percent from fiscal 2007.

There was a $1.2 billion net increase in general obligation bonds and $1.9 billion net increase in revenue bonds for financing of highway projects. Other large revenue bond issuances were for water quality projects and for university campus improvements. Note 5 shows the details on the state's long-term liabilities and Note 6 provides detail information on the state's bond indebtedness.

Cash Management

Funds deposited in the state Treasury are pooled for investment purposes. The Treasury is authorized to invest in fully collateralized time deposits, obligations of the United States, obligations of various federal credit organizations, direct security repurchase agreements, reverse repurchase agreements, bankers' acceptances, commercial paper and contracts written by the Comptroller which are commonly known as covered call options.

During fiscal 2008, the average investment portfolio consisted of the following.

Average Investment Portfolio*

For the Fiscal Year Ended August 31, 2008

Investment Type	Percent of Total	Average Amount Invested (Amounts in Millions)	Average Interest Rate
NOW Accounts	0.1 %	$ 28.8	1.00 %
Time Deposits	0.1	14.9	2.92
BidTX	2.3	579.9	4.07
Repurchase Agreements	7.8	1,924.9	3.50
U.S. Treasury and Agency Securities	46.6	11,553.1	3.89
U.S. Mortgages	13.8	3,430.8	5.56
U.S. Treasury (Lottery)	2.6	637.9	**
Commercial Paper	10.6	2,638.0	3.68
Corporate Obligations	2.7	669.9	4.16
Asset Backed Securities	4.0	1,005.1	4.40
Mutual Funds	9.9	2,455.6	3.66
Subtotal	100.5	24,938.9	
Reverse Repurchase Agreements	(0.5)	(120.3)	2.94
Total	100.0 %	$24,818.6	4.08 %

* The above numbers include all funds included in the state Treasury.

** The yield for the lottery is not included in the average yield for the state since the investments are long-term and are held for lottery prize winners.

Economic Condition and Outlook

Texas added more jobs than any other state in 2008, adding nearly 13 times more jobs than the second ranked state, Oklahoma. Completing its fifth consecutive year of employment growth, Texas nonfarm employment added 221,000 jobs from November 2007 to November 2008. The state's economy was largely insulated from the nation's housing-induced slowdown, as average housing prices in Texas continued to increase. Although the number of Texas workers increased, available jobs increased less rapidly than the state's labor force, causing the state's unemployment rate to climb from 4.2 to 5.7 percent in November 2008. Texas' unemployment rate was a full 1 percent below the nation's unemployment rate of 6.7 percent.

Texas' real gross domestic product in 2008 rose by 4.1 percent, when adjusted for inflation, exceeding its average over the past decade. Credit is largely due to the strength of the state's energy industry. Another positive for Texas is its position as the nation's largest exporting state, accounting for one-seventh of total U.S. exports.

Even with the relative strength and continued growth in most industries, the Texas economy experienced a weakening as 2008 came to a close. Underlying the weakness were the weight of a national recession, large losses in stock investments, a stronger dollar and the deflating of the energy industry that had boomed during most of the year. There also was Hurricane Ike, which left widespread destruction in the populous Houston-Galveston region.

The state revenue outlook is guarded and there are many factors that prevent forecasting the same robust revenue growth seen in recent years. Fiscal 2008 finished strong with an ending balance of $6.8 billion in general revenue-related funds after the required constitutional transfers to the Economic Stabilization Fund. On Jan. 12, 2009, the Comptroller released the 2010-11 Biennial Revenue Estimate and the state is expected to have sufficient revenue to support $77.1 billion in general purpose spending for the upcoming biennium. The Comptroller is forecasting a decline in revenues over the next three years as a consequence of the U.S. economic recession and substantial slowdown in the Texas economy. Sales tax, the state's largest source of the tax revenue, is only expected to grow slightly at 0.4 percent in fiscal 2009 and only 2.9 percent for the 2010-2011 biennium. Supporting the lower rate of growth in the revenue estimate, Texas real economic growth for the current biennium is projected to decelerate to a biennial rate of 6 percent—down from the previous period's 8.6 percent growth. Additionally, for the 2010-2011 biennium, this economic growth ticks further downward to a 5.8 percent biennial rate. Fiscal 2009 is expected to be the low point in economic growth at 1.8 percent from the prior year. Fiscal 2010 fares only slightly better with a 1.9 percent annual growth rate. This period of uncertainty in the state's economy is ongoing due to the liquidity crisis in credit markets, weak housing demand and recessionary domestic and export markets. Although economic stimuli and other corrective measures have been implemented at the national level, the current situation is volatile and requires cautious vigilance and prudence.

Reporting Other Postemployment Benefits

This financial report contains information related to the reporting of other postemployment benefits (OPEB), such as health and basic life insurance, offered to retired state employees. These benefits are not contractual and are subject to change each biennium when the Legislature is in session. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. The Legislature meets every two years to appropriate funds necessary for payments for new or renewed obligations.

In response to these concerns, House Bill 2365 was passed during the 80th session of the Texas Legislature. The bill allows state and local governments the option to report OPEB related expenses on a statutory modified accrual basis. The state of Texas contributes to four distinct OPEB plans.

The University of Texas System and Texas A&M University System administer two single-employer defined benefit OPEB plans. Each chose to implement GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, beginning in fiscal 2008. As a result of their implementation of

GASB 45 a $563 million net OPEB obligation is recognized in the statement of net assets. Additionally, a $699 million actuarially calculated annual OPEB cost for these plans is included in the expenses of the statement of activities.

There is not a net OPEB obligation recorded for the State Retiree Health Plan (SRHP) administered by the Employees Retirement System of Texas (ERS). The SRHP is a cost-sharing multiple-employer defined benefit OPEB plan. In a cost-sharing plan, the contribution rate or amount charged to an individual employer may be higher or lower than the amount that would result from a calculation based on the projected benefits of only that employer's employees.

Also, the obligation or commitment for benefits is not directly attributable to any individual participating employer. Because of these factors, the OPEB expense/liability recognition requirements for cost-sharing plans are different than those of single employer plans. Specifically, Paragraph 23 of GASB 45 requires employers that participate in cost-sharing plans to "recognize annual OPEB expense/expenditures for their contractually required contributions to the plan in fund financial statements on the accrual basis or on the modified accrual basis, whichever applies for the fund(s) used to report the employer's contributions..."

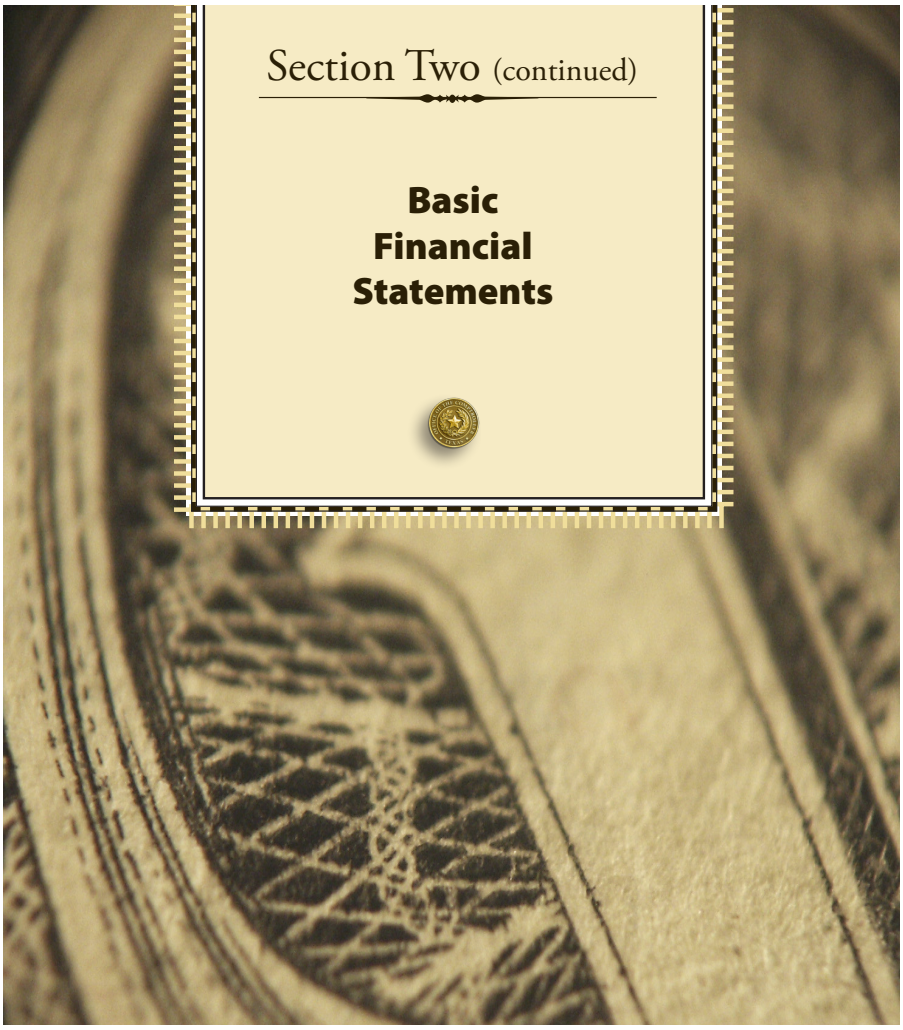
Administrators of the SRHP established contractually required contributions equal to the modified accrual based pay-as-you-go costs. The state of Texas fiscal 2008 contributions to the SRHP equaled this contractually required amount.

There is not a net OPEB obligation recorded for the Texas Public School Retired Employees Group Insurance Program (TRS-Care). TRS-Care is a cost-sharing multiple-employer defined benefit plan but the state of Texas is not an employer in the plan. Therefore, the state is not charged with funding a contractually required contribution. Instead, the state makes on-behalf payments to the TRS-Care plan administrators to partially fund the annual costs of the plan.

The financial statements, notes and required supplementary information contained in this report were prepared in full conformity to the requirements contained in GASB 45.

Contacting the State's Financial Management

This financial report is designed to provide the state's citizens, taxpayers, customers, investors and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.


Section Two (continued)
Basic
Financial
Statements

STATE OF TEXAS

Statement of Net Assets

August 31, 2008 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities*	Total	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 30,143,109	$ 3,901,063	$ 34,044,172	$ 673,752
Short-Term Investments	716,121	1,112,234	1,828,355	856,179
Securities Lending Collateral	3,520,567	1,566,650	5,087,217	
Receivables:				
Taxes (Note 24)	3,292,262		3,292,262	
Federal	1,868,182	439,895	2,308,077	57,972
Other Intergovernmental	1,023,583	63,732	1,087,315	3,290
Accounts	839,028	625,517	1,464,545	57,865
Interest and Dividends	157,503	150,404	307,907	8,757
Gifts		118,373	118,373	
Investment Trades	5,073	344,991	350,064	
Other	52,959	1,163,010	1,215,969	161
From Fiduciary Funds	1,122		1,122	
Due From Primary Government (Note 12)				426
Due From Component Units (Note 12)	395	18	413	
Inventories	278,106	128,403	406,509	851
Prepaid Items	7,872	111,467	119,339	1,162
Loans and Contracts	110,451	282,626	393,077	9,776
Other Current Assets	32	259,974	260,006	1,519
Restricted:				
Cash and Cash Equivalents	327,145	3,088,771	3,415,916	2,742
Short-Term Investments		711,731	711,731	19,210
Loans and Contracts	60,293	83,197	143,490	111
Total Current Assets	42,403,803	14,152,056	56,555,859	1,693,773
Noncurrent Assets:				
Internal Balances (Note 12)	10,406	(10,406)		
Loans and Contracts	565,411	3,499,514	4,064,925	74,295
Investments	25,748,004	6,338,806	32,086,810	12,768
Receivables:				
Taxes (Note 24)	424,525		424,525	
Federal	14,756		14,756	
Gifts		260,555	260,555	
Other	95,155		95,155	4,214
Restricted:				
Cash and Cash Equivalents		110,463	110,463	191
Short-Term Investments		45,548	45,548	
Investments		27,282,706	27,282,706	271,063
Receivables	293	136,702	136,995	
Loans and Contracts	713,125	3,399,864	4,112,989	4,200
Other	86,996	10,773	97,769	
Assets Held in Trust		1,368	1,368	
Net Pension Asset (Note 9)	6,928		6,928	
Deferred Charges	19,770		19,770	
Other Noncurrent Assets	18,591	96,403	114,994	6,005
Capital Assets: (Note 2)				
Nondepreciable	56,835,558	5,318,648	62,154,206	6,025
Depreciable	24,402,979	24,212,174	48,615,153	97,847
Accumulated Depreciation	(13,911,649)	(11,489,247)	(25,400,896)	(49,680)
Total Noncurrent Assets	95,030,848	59,213,871	154,244,719	426,928
Total Assets	137,434,651	73,365,927	210,800,578	2,120,701

Concluded on the following page

STATE OF TEXAS

Statement of Net Assets (concluded)

August 31, 2008 (Amounts in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities*	Total	
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	$ 4,442,151	$ 1,162,385	$ 5,604,536	$ 136,919
Payroll	595,757	582,940	1,178,697	226
Other Intergovernmental	1,946,082	10,194	1,956,276	
Federal	4,690	30,762	35,452	24,449
Investment Trades	50,473	1,186,726	1,237,199	
Interest	355,235	62,378	417,613	1,861
Annuities		12,174	12,174	
To Fiduciary Funds	209,627	31	209,658	
Internal Balances (Note 12)	631,164	(631,164)		
Due To Primary Government (Note 12)				413
Due To Component Units (Note 12)	426		426	
Unearned Revenue	3,959,095	2,314,190	6,273,285	59,294
Obligations/Reverse Repurchase Agreement	146,784		146,784	
Obligations/Securities Lending	3,545,602	1,567,697	5,113,299	
Short-Term Debt (Note 4)	6,590,750		6,590,750	
Claims and Judgments (Note 5)	61,242	95,634	156,876	
Capital Lease Obligations (Note 5, 7)	1,562	2,667	4,229	93
Employees' Compensable Leave (Note 5)	435,943	316,050	751,993	3,429
Notes and Loans Payable (Note 5)	27,261	1,393,081	1,420,342	38,344
General Obligation Bonds Payable (Note 5, 6)	388,575	114,340	502,915	
Revenue Bonds Payable (Note 5, 6)	162,853	1,487,144	1,649,997	16,858
Liabilities Payable From Restricted Assets (Note 5)		498,002	498,002	
Funds Held for Others		107,024	107,024	25
Other Current Liabilities	1,058,506	471,621	1,530,127	16,957
Total Current Liabilities	24,613,778	10,783,876	35,397,654	298,868
Noncurrent Liabilities:				
Claims and Judgments (Note 5)	124,939	59,157	184,096	
Capital Lease Obligations (Note 5, 7)	8,060	11,626	19,686	72
Employees' Compensable Leave (Note 5)	313,056	302,645	615,701	1,570
Notes and Loans Payable (Note 5)	312,329	1,044,186	1,356,515	103,314
General Obligation Bonds Payable (Note 5, 6)	7,672,134	2,593,423	10,265,557	
Revenue Bonds Payable (Note 5, 6)	3,282,131	11,882,827	15,164,958	396,176
Liabilities Payable From Restricted Assets (Note 5)		2,974,854	2,974,854	87,301
Assets Held for Others		722,040	722,040	
Net Pension Obligation (Note 9)	437,036		437,036	
Net OPEB Obligation (Note 11)		562,987	562,987	
Other Noncurrent Liabilities		275,998	275,998	274,383
Total Noncurrent Liabilities	12,149,685	20,429,743	32,579,428	862,816
Total Liabilities	36,763,463	31,213,619	67,977,082	1,161,684
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	58,207,920	7,384,503	65,592,423	34,325
Restricted for:				
Education	711,346	2,181,416	2,892,762	4,651
Debt Service	189,203	212,795	401,998	
Capital Projects	174,143	230,725	404,868	
Veterans Land Board Housing Programs		669,684	669,684	
Unemployment Trust Funds		1,788,436	1,788,436	
Economic Stabilization	4,367,915		4,367,915	
Funds Held as Permanent Investments:				
Nonexpendable	10,303,017	10,981,925	21,284,942	
Expendable	14,924,168	8,803,650	23,727,818	
Other	688,379	14,350	702,729	
Unrestricted	11,105,097	9,884,824	20,989,921	920,041
Total Net Assets	$100,671,188	$42,152,308	$142,823,496	$ 959,017

The accompanying notes to the financial statements are an integral part of this statement.

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

STATE OF TEXAS

Statement of Activities

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental Activities:				
General Government	$ 2,659,822	$ 1,171,997	$ 633,091	$ 222
Education	24,986,076	821,291	2,836,739	
Employee Benefits	86,195	107		
Teacher Retirement Benefits	1,761,759			
Health and Human Services	32,426,046	1,832,315	21,421,963	37
Public Safety and Corrections	5,020,897	331,101	398,927	
Transportation	4,478,109	1,785,835	136,498	2,585,248
Natural Resources and Recreation	1,451,450	661,657	469,627	
Regulatory Services	398,885	635,089	3,227	
Indirect Interest on Long-Term Debt	578,059			
Total Governmental Activities	73,847,298	7,239,392	25,900,072	2,585,507
Business-Type Activities:				
General Government	177,012	43,106	153,177	
Education*	18,619,716	8,705,756	4,068,805	250,063
Health and Human Services	1,467,185	1,058,134	135,165	
Public Safety and Corrections	80,607	87,365		
Transportation	164,280	48,958	34	(4,101)
Natural Resources and Recreation	247,018	42,964	451,390	
Lottery	2,634,446	3,672,423	9	
Total Business-Type Activities	23,390,264	13,658,706	4,808,580	245,962
Total Primary Government	$97,237,562	$20,898,098	$30,708,652	$2,831,469
COMPONENT UNITS				
Component Units	$ 1,772,502	$ 1,431,137	$ 290,954	$
Total Component Units	$ 1,772,502	$ 1,431,137	$ 290,954	$ 0
General Revenues				
Taxes:				
Sales and Use				
Motor Vehicle and Manufactured Housing				
Motor Fuels				
Franchise				
Oil and Natural Gas Production				
Insurance Occupation				
Cigarette and Tobacco				
Other				
Unrestricted Investment Earnings				
Settlement of Claims				
Gain on Sale of Capital Assets				
Other General Revenues				
Capital Contributions				
Contributions to Permanent and Term Endowments				
Special Items (Note 23)				
Transfers - Internal Activities (Note 12)				
Total General Revenues, Contributions and Transfers				
Change in Net Assets				
Net Assets, September 1, 2007				
Restatements (Note 14)				
Net Assets, September 1, 2007, as Restated				
Net Assets, August 31, 2008				

The accompanying notes to the financial statements are an integral part of this statement.

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (854,512)	$	$ (854,512)	$
(21,328,046)		(21,328,046)	
(86,088)		(86,088)	
(1,761,759)		(1,761,759)	
(9,171,731)		(9,171,731)	
(4,290,869)		(4,290,869)	
29,472		29,472	
(320,166)		(320,166)	
239,431		239,431	
(578,059)		(578,059)	
(38,122,327)	0	(38,122,327)	0
	19,271	19,271	
	(5,595,092)	(5,595,092)	
	(273,886)	(273,886)	
	6,758	6,758	
	(119,389)	(119,389)	
	247,336	247,336	
	1,037,986	1,037,986	
0	(4,677,016)	(4,677,016)	0
(38,122,327)	(4,677,016)	(42,799,343)	0
			(50,411)
0	0	0	(50,411)
21,640,855		21,640,855	
3,384,597		3,384,597	
3,000,148		3,000,148	
4,712,183		4,712,183	
4,036,033		4,036,033	
1,446,828		1,446,828	
1,454,187		1,454,187	
1,744,400		1,744,400	
1,041,840	190,974	1,232,814	36,034
555,476	6	555,482	
	270	270	812
1,392,565	270,786	1,663,351	20,282
8,653		8,653	
	167,692	167,692	
	(150,026)	(150,026)	
(3,909,529)	3,909,529		
40,508,236	4,389,231	44,897,467	57,128
2,385,909	(287,785)	2,098,124	6,717
98,350,104	42,898,608	141,248,712	516,547
(64,825)	(458,515)	(523,340)	435,753
98,285,279	42,440,093	140,725,372	952,300
$100,671,188	$42,152,308	$142,823,496	$959,017

STATE OF TEXAS

Balance Sheet – Governmental Funds

August 31, 2008 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	$19,614,319	$ 4,623,950	$ 834,243	$ 5,047,422	$30,119,934
Short-Term Investments	148,461		86,376	88,046	322,883
Securities Lending Collateral	201		3,433,544	16,808	3,450,553
Receivables:					
Accounts	566,114	26,624	144,974	5,116	742,828
Taxes (Note 24)	3,716,787				3,716,787
Federal	1,600,163	281,251		1,524	1,882,938
Investment Trades	3		4,354	596	4,953
Other Intergovernmental	860,128	163,455			1,023,583
Interest and Dividends	35,384	11,191	92,756	14,574	153,905
Other (Note 1)	148,114				148,114
Due From Other Funds (Note 12)	22,313	269,440	356	83,974	376,083
Due From Component Units (Note 12)	332			63	395
Interfund Receivable (Note 12)	15,560		3		15,563
Inventories	170,836	106,751		519	278,106
Prepaid Items	196		7,667	9	7,872
Investments	8,656		24,213,870	1,117,660	25,340,186
Loans and Contracts	170,746	261,733	1,161	242,222	675,862
Other Assets		10,589		8,034	18,623
Restricted:					
Cash and Cash Equivalents	6,880			320,265	327,145
Receivables	293				293
Loans and Contracts	122,688			650,730	773,418
Other Assets	88			86,908	86,996
Total Assets	$27,208,262	$ 5,754,984	$28,819,304	$ 7,684,470	$69,467,020
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 2,725,368	$ 1,006,137	$ 13,219	$ 235,080	$ 3,979,804
Investment Trades	8		49,219	1,246	50,473
Other Intergovernmental	1,946,082				1,946,082
Payroll	487,344	99,541	1,525	7,347	595,757
Federal	4,650			40	4,690
Interest	68,325		5,869		74,194
Due To Other Funds (Note 12)	1,061,788	4,624	1,713	73,706	1,141,831
Due To Component Units (Note 12)	426				426
Interfund Payable (Note 12)	59			2,524	2,583
Deferred Revenues	2,897,228	3,434,803	62,378	445	6,394,854
Obligations/Reverse Repurchase Agreements	146,784				146,784
Obligations/Securities Lending	201		3,458,196	16,807	3,475,204
Other Liabilities	814,833	240,658		3,016	1,058,507
Short-Term Debt (Note 4)	6,400,000	190,750			6,590,750
Total Liabilities	16,553,096	4,976,513	3,592,119	340,211	25,461,939
Fund Balances/(Deficits):					
Reserved (Note 13)	2,471,181	496,233	25,227,185	2,232,894	30,427,493
Unreserved (Note 13):					
General	8,183,985				8,183,985
Special Revenue		282,238		4,670,769	4,953,007
Capital Projects				(123,683)	(123,683)
Permanent				564,279	564,279
Total Fund Balances	10,655,166	778,471	25,227,185	7,344,259	44,005,081
Total Liabilities and Fund Balances	$27,208,262	$ 5,754,984	$28,819,304	$ 7,684,470	$69,467,020

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Asssets

August 31, 2008 (Amounts in Thousands)

Total Fund Balance – Governmental Funds		$ 44,005,081
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets less accumulated depreciation are included in the statement of net assets (Note 2):		
Capital Assets - Nondepreciable	$ 56,835,558	
Capital Assets - Depreciable	24,402,979	
Accumulated Depreciation	(13,911,649)	
		67,326,888
Some of the state's assets are not current available resources and are not reported in the funds.		
Net Pension Assets (Note 9)	6,928	
Deferred charges for unamortized bond issuance cost	19,770	
		26,698
Some of the state's revenues will be collected after year-end but are not available soon enough to pay current year's expenditures and therefore, are deferred in the funds.		2,436,174
Long-term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the statement of net assets. (Note 5 and Note 9)		
Claims and Judgments	(186,181)	
Capital Lease Obligations	(9,622)	
Employees' Compensable Leave	(748,999)	
Notes and Loans Payable	(339,590)	
General Obligation Bonds Payable	(8,060,709)	
Revenue Bonds Payable	(3,444,984)	
Net Pension Obligation	(437,036)	
		(13,227,121) *
* current portion = $1,077,436 and noncurrent portion = $12,149,685.		
Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the statement of net assets.		(281,041)
The internal service fund is used by management to charge the costs of employees life, accident and health insurance benefits fund to individual funds. Since governmental activities are the predominant activities of internal service funds, the assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		384,509
Net Assets of Governmental Activities		$100,671,188

STATE OF TEXAS

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	$38,715,847	$ 38,908	$	$ 2,501,610	$41,256,365
Federal	25,879,090	2,750,490		26,635	28,656,215
Licenses, Fees and Permits	2,799,921	1,146,625		574,866	4,521,412
Interest and Other Investment Income	721,787	146,100	(1,307,943)	71,989	(368,067)
Land Income	19,389	5,910	624,498	38	649,835
Settlement of Claims	554,412	923			555,335
Sales of Goods and Services	1,582,483	294,269	163,857	22,742	2,063,351
Other	2,504,791	8,560		76,313	2,589,664
Total Revenues	72,777,720	4,391,785	(519,588)	3,274,193	79,924,110
EXPENDITURES					
Current:					
General Government	2,395,984	12,440		219,900	2,628,324
Education	23,076,592	50,000	310,270	1,539,192	24,976,054
Employee Benefits	1,487			12,640	14,127
Teacher Retirement Benefits	1,780,758				1,780,758
Health and Human Services	32,263,718	10,000		81,559	32,355,277
Public Safety and Corrections	4,134,180	645,929		83,506	4,863,615
Transportation	8,420	3,870,772		16,118	3,895,310
Natural Resources and Recreation	1,355,996			64,315	1,420,311
Regulatory Services	301,502			91,220	392,722
Capital Outlay	137,059	4,159,789	307	106,415	4,403,570
Debt Service:					
Principal	52,317			362,646	414,963
Interest	62,539	37,641		328,271	428,451
Other Financing Fees		6,326		8,513	14,839
Total Expenditures	65,570,552	8,792,897	310,577	2,914,295	77,588,321
Excess (Deficiency) of Revenues Over (Under) Expenditures	7,207,168	(4,401,112)	(830,165)	359,898	2,335,789
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	4,661,664	3,727,027		5,443,058	13,831,749
Transfer Out (Note 12)	(12,057,410)	(88,032)	(716,535)	(4,915,005)	(17,776,982)
Bonds and Notes Issued		1,408,940		1,578,810	2,987,750
Bonds Issued for Refunding				515,408	515,408
Premiums on Bonds Issued		73,051		107,117	180,168
Payment to Escrow for Refunding				(558,623)	(558,623)
Sale of Capital Assets	16,747	5,311			22,058
Increase in Obligations Under Capital Leases	715				715
Insurance Recoveries	2,842	11,685		500	15,027
Total Other Financing Sources (Uses)	(7,375,442)	5,137,982	(716,535)	2,171,265	(782,730)
Net Change in Fund Balances	(168,274)	736,870	(1,546,700)	2,531,163	1,553,059
Fund Balances, September 1, 2007	10,836,321	12,198	26,773,885	4,735,617	42,358,021
Restatements (Note 14)	(12,881)	29,403		77,479	94,001
Fund Balances, September 1, 2007, as Restated	10,823,440	41,601	26,773,885	4,813,096	42,452,022
Fund Balances, August 31, 2008	$10,655,166	$ 778,471	$25,227,185	$ 7,344,259	$44,005,081

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

Net Change in Fund Balances		$ 1,553,059
Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:		
Capital Outlay	$ 4,403,570	
Depreciation Expense (Note 2)	(839,637)	
		3,563,933
The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net assets.		(22,057)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(1,284,016)
The internal service fund is used by management to charge the costs of the employees life, accident and health insurance benefits fund to individual funds. The adjustments for internal service fund "close" the fund by allocating these amounts to participating governmental activities.		14,596
Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net assets. Repayment of long term debt consumes current financial resources and is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets.		
Bonds and Notes Issued	(3,503,158)	
Premiums (Discounts) on Bonds Proceeds	(180,168)	
Increase in Obligations Under Capital Leases	(715)	
Repayment of Bond and Capital Lease Principal	973,586	
		(2,710,455)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.		1,270,885
Resource flows between fiduciary funds and governmental funds are converted to revenues or expenses on the statement of activities. Transfers of capital assets have not been reported in the governmental funds.		
Capital Asset Transfers	(36)	
Change in Transfers	35,740	
Increase in Revenues	1,754	
Increase in Expenses	(37,494)	
		(36)
Change in Net Assets of Governmental Activities		$ 2,385,909

STATE OF TEXAS

Statement of Net Assets
Proprietary Funds

August 31, 2008 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund**
	Colleges and Universities*	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 3,431,986	$ 231,466	$	$ 237,611	$ 3,901,063	$ 23,175
Short-Term Investments	385,672	726,562			1,112,234	393,238
Securities Lending Collateral	1,169,640			397,010	1,566,650	70,014
Restricted:						
Cash and Cash Equivalents	507,430		384,933	2,196,408	3,088,771	
Short-Term Investments	308,997		21,122	381,612	711,731	
Loans and Contracts	15			83,182	83,197	
Receivables:						
Federal	426,432	3,070		10,393	439,895	
Other Intergovernmental	63,732				63,732	
Accounts	412,078	381	2,331	210,727	625,517	96,200
Interest and Dividends	55,846	37,848	1,071	55,639	150,404	3,598
Gifts	118,373				118,373	
Investment Trades	295,402			49,589	344,991	120
Other	1,160,160			2,850	1,163,010	
Due From Other Funds (Note 12)	639,396		118	26,663	666,177	729
Due From Component Units (Note 12)	18				18	
Interfund Receivable (Note 12)	14,685			56	14,741	
Inventories	113,407			14,996	128,403	
Prepaid Items	106,636			4,831	111,467	
Loans and Contracts	95,994	131,883		54,749	282,626	
Other Current Assets	259,721			253	259,974	
Total Current Assets	9,565,620	1,131,210	409,575	3,726,569	14,832,974	587,074
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents	102,766		2,213	5,484	110,463	
Short-Term Investments	45,548				45,548	
Investments	22,887,111		115,000	4,280,595	27,282,706	
Receivables	4,876			131,826	136,702	
Loans and Contracts	129,306			3,270,558	3,399,864	
Other	8,374			2,399	10,773	
Loans and Contracts	32,284	3,435,163		32,067	3,499,514	
Investments	6,338,806				6,338,806	407,818
Interfund Receivable (Note 12)	367,945				367,945	
Gifts Receivable	260,555				260,555	
Capital Assets: (Note 2)						
Nondepreciable	3,079,709		2,234,780	4,159	5,318,648	
Depreciable	23,693,435		420,283	98,456	24,212,174	
Accumulated Depreciation	(11,430,582)		(24,088)	(34,577)	(11,489,247)	
Assets Held in Trust	362			1,006	1,368	
Other Noncurrent Assets	38,476		45,357	12,570	96,403	
Total Noncurrent Assets	45,558,971	3,435,163	2,793,545	7,804,543	59,592,222	407,818
Total Assets	55,124,591	4,566,373	3,203,120	11,531,112	74,425,196	994,892

Concluded on the following page

STATE OF TEXAS

Statement of Net Assets
Proprietary Funds (concluded)

August 31, 2008 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities*	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Fund**
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	$ 1,074,902	$ 573	$ 10,859	$ 76,051	$ 1,162,385	$ 462,347
Payroll	578,444			4,496	582,940	
Other Intergovernmental	10,194				10,194	
Federal	30,762				30,762	
Investment Trades	1,125,378			61,348	1,186,726	
Interest	3,700	10,446	2,450	45,782	62,378	
Annuities				12,174	12,174	
Due To Other Funds (Note 12)	11,658	2,896	1,690	16,226	32,470	77,225
Interfund Payable (Note 12)	17,315				17,315	
Unearned Revenue	2,082,657	46,465	56,314	128,754	2,314,190	414
Obligations/Securities Lending	1,169,559			398,138	1,567,697	70,397
Claims and Judgments (Note 5)	95,634				95,634	
Capital Lease Obligations (Note 5, 7)	2,541			126	2,667	
Employees' Compensable Leave (Note 5)	312,500			3,550	316,050	
Notes and Loans Payable (Note 5)	1,321,650			71,431	1,393,081	
General Obligation Bonds Payable (Note 5, 6)	6,930	40,320		67,090	114,340	
Revenue Bonds Payable (Note 5, 6)	1,402,963	42,555		41,626	1,487,144	
Liabilities Payable From Restricted Assets (Note 5)				498,002	498,002	
Funds Held for Others	107,024				107,024	
Other Current Liabilities	455,165		5,637	10,819	471,621	
Total Current Liabilities	9,808,976	143,255	76,950	1,435,613	11,464,794	610,383
Noncurrent Liabilities:						
Interfund Payable (Note 12)	378,351				378,351	
Claims and Judgments (Note 5)	59,157				59,157	
Capital Lease Obligations (Note 5, 7)	11,426			200	11,626	
Employees' Compensable Leave (Note 5)	300,849			1,796	302,645	
Notes and Loans Payable (Note 5)	138,279		900,000	5,907	1,044,186	
Liabilities Payable From Restricted Assets (Note 5)				2,974,854	2,974,854	
General Obligation Bonds Payable (Note 5, 6)	44,673	763,065		1,785,685	2,593,423	
Revenue Bonds Payable (Note 5, 6)	6,441,029	1,319,612	1,468,735	2,653,451	11,882,827	
Assets Held for Others	721,034			1,006	722,040	
Net OPEB Obligation (Note 11)	562,987				562,987	
Other Noncurrent Liabilities	136,190			139,808	275,998	
Total Noncurrent Liabilities	8,793,975	2,082,677	2,368,735	7,562,707	20,808,094	0
Total Liabilities	18,602,951	2,225,932	2,445,685	8,998,320	32,272,888	610,383
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	7,078,895		262,240	43,368	7,384,503	
Restricted for:						
Education	2,181,416				2,181,416	
Debt Retirement	28,200		173,245	11,350	212,795	
Capital Projects	230,725				230,725	
Veterans Land Board Housing Programs				669,684	669,684	
Unemployment Trust Funds				1,788,436	1,788,436	
Funds Held as Permanent Investments:						
Nonexpendable	10,981,925				10,981,925	
Expendable	8,803,650				8,803,650	
Other				14,350	14,350	384,509
Unrestricted	7,216,829	2,340,441	321,950	5,604	9,884,824	
Total Net Assets	$36,521,640	$2,340,441	$ 757,435	$ 2,532,792	$42,152,308	$ 384,509

The accompanying notes to the financial statements are an integral part of this statement.

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

** Employees life, accident and health insurance benefits fund - no combining statements presented.

STATE OF TEXAS

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities*	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Fund**
OPERATING REVENUES						
Lottery Collections	$	$	$	$ 3,671,884	$ 3,671,884	$
Tuition Revenue	574,064				574,064	
Tuition Revenue - Pledged	2,866,959				2,866,959	
Discounts and Allowances	(618,222)				(618,222)	
Hospital Revenue - Pledged	6,185,545				6,185,545	
Discounts and Allowances	(3,168,917)				(3,168,917)	
Professional Fees	3,419,241				3,419,241	
Professional Fees - Pledged	13,745				13,745	
Discounts and Allowances	(2,147,973)				(2,147,973)	
Auxiliary Enterprises	58,984				58,984	
Auxiliary Enterprises - Pledged	861,476			86,605	948,081	
Discounts and Allowances	(28,178)				(28,178)	
Unemployment Taxes				1,058,134	1,058,134	
Other Sales of Goods and Services	63,858			15,575	79,433	
Other Sales of Goods and Services - Pledged	472,213		48,945	30,825	551,983	
Discounts and Allowances	(16,955)				(16,955)	
Interest and Investment Income	1,624	75,134		252,848	329,606	
Interest and Investment Income - Pledged	1,166	101,348			102,514	
Federal Revenue	1,869,078			154,969	2,024,047	
State Grant Revenue	159,605				159,605	
Premium Revenue						1,439,632
Other Operating Grant Revenue	450,088				450,088	1,543
Other Operating Grant Revenue - Pledged	558,316				558,316	
Other Revenues	27,959	4,108		174,300	206,367	
Other Revenues - Pledged	149,741			10	149,751	
Total Operating Revenues	11,753,417	180,590	48,945	5,445,150	17,428,102	1,441,175
OPERATING EXPENSES						
Cost of Goods Sold	139,043			63,421	202,464	
Salaries and Wages	8,705,945	6,755		46,713	8,759,413	4,520
Payroll Related Costs	2,025,415	986		11,141	2,037,542	1,124
Professional Fees and Services	794,302	1,344	6,329	75,436	877,411	831
Travel	259,420	84		750	260,254	34
Materials and Supplies	1,597,168	116	8,119	5,813	1,611,216	605
Communication and Utilities	659,593	37	1,100	1,281	662,011	244
Repairs and Maintenance	349,045	10	10,909	1,740	361,704	200
Rentals and Leases	200,695	49		7,981	208,725	365
Printing and Reproduction	59,277	3	4	11,842	71,126	29
Depreciation and Amortization	1,043,420		15,882	5,654	1,064,956	
Unemployment Benefit Payments				1,464,794	1,464,794	
Bad Debt Expense	13,394	14		896	14,304	
Interest Expense	363	99,024	11	202,804	302,202	
Scholarships	658,448				658,448	
Lottery Fees and Other Costs				280,918	280,918	
Lottery Prize Payments				2,281,125	2,281,125	
Employee/Participant Benefit Payments				(26,992)	(26,992)	1,460,528
Claims and Judgments	(574)				(574)	
Net Change in Pension/OPEB Obligations (Note 11)	562,987				562,987	
Other Expenses	1,086,724	2,292	24,662	43,713	1,157,391	370
Total Operating Expenses	18,154,665	110,714	67,016	4,479,030	22,811,425	1,468,850
Operating Income (Loss)	(6,401,248)	69,876	(18,071)	966,120	(5,383,323)	(27,675)

Concluded on the following page

STATE OF TEXAS

Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities*	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Fund**
NONOPERATING REVENUES (EXPENSES)						
Federal Revenue	$ 467,596	$ 154,623	$	$ 390	$ 622,609	$
Gifts	551,668			11	551,679	
Gifts - Pledged	119,976				119,976	
Land Income	5,472		13		5,485	
Interest and Investment Income (Loss)	(380,534)		24,546	96,653	(259,335)	41,543
Interest and Investment Income - Pledged	317,643				317,643	
Loan Premium and Fees on Securities Lending				13,642	13,642	3,001
Investing Activities Expense	(113,431)			(18)	(113,449)	
Interest Expense	(294,272)		(96,776)	(3,462)	(394,510)	
Borrower Rebates and Agent Fees	(703)			(10,927)	(11,630)	(2,413)
Gain on Sale of Capital Assets	261			9	270	
Settlement of Claims				6	6	140
Claims and Judgments	(3,476)			(107)	(3,583)	
Other Revenues	106,314		34	(11,742)	94,606	
Other Revenues - Pledged	34,640				34,640	
Other Expenses	(52,349)	(2,147)	(487)	(684)	(55,667)	
Total Nonoperating Revenues (Expenses)	758,805	152,476	(72,670)	83,771	922,382	42,271
Income (Loss) Before Capital Contributions, Endowments and Transfers	(5,642,443)	222,352	(90,741)	1,049,891	(4,460,941)	14,596
CAPITAL CONTRIBUTIONS, ENDOWMENTS, SPECIAL ITEMS AND TRANSFERS						
Capital Contributions - Federal	27,412				27,412	
Capital Contributions - Other	222,797		(4,102)	(110)	218,585	
Contributions to Permanent and Term Endowments	167,692				167,692	
Special Items (Note 23)				(150,026)	(150,026)	
Transfer In (Note 12)	5,414,776	4,235	46,826	17,121	5,482,958	
Transfer Out (Note 12)	(480,462)	(9,846)		(1,083,157)	(1,573,465)	
Total Capital Contributions, Endowments, Special Items and Transfers	5,352,215	(5,611)	42,724	(1,216,172)	4,173,156	0
Change in Net Assets	(290,228)	216,741	(48,017)	(166,281)	(287,785)	14,596
Net Assets, September 1, 2007	36,835,169	2,123,700	805,452	3,134,287	42,898,608	369,913
Restatements (Note 14)	(23,301)			(435,214)	(458,515)	
Net Assets, September 1, 2007, as Restated	36,811,868	2,123,700	805,452	2,699,073	42,440,093	369,913
Net Assets, August 31, 2008	$ 36,521,640	$ 2,340,441	$ 757,435	$ 2,532,792	$ 42,152,308	$ 384,509

The accompanying notes to the financial statements are an integral part of this statement.

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

** Employees life, accident and health insurance benefits fund - no combining statements presented.

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Fund*
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers	$ 4,436,991	$	$ 84,764	$5,027,270	$ 9,549,025	$ 365,828
Proceeds from Tuition and Fees	2,881,699				2,881,699	
Proceeds from Research Grants and Contracts	3,145,641			131,114	3,276,755	
Proceeds from Gifts	12,364				12,364	
Proceeds from Loan Programs	175,416			798,396	973,812	
Proceeds from Auxiliaries	892,404				892,404	
Proceeds from Other Revenues	541,958			107,348	649,306	1,113,683
Payments to Suppliers for Goods and Services	(4,753,295)	(1,564)	(53,236)	(489,286)	(5,297,381)	(34,034)
Payments to Employees	(10,576,037)	(7,716)		(56,449)	(10,640,202)	(5,914)
Payments for Loans Provided	(195,354)			(721,483)	(916,837)	
Payments for Other Expenses	(716,022)	(81)	(28,761)	(3,909,893)	(4,654,757)	(1,427,456)
Net Cash Provided by Operating Activities	(4,154,235)	(9,361)	2,767	887,017	(3,273,812)	12,107
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Debt Issuance		622,360		352,818	975,178	
Proceeds from State Appropriations	4,258,402	3,735			4,262,137	
Proceeds from Gifts	581,063				581,063	
Proceeds from Endowments	217,933				217,933	
Proceeds from Transfers from Other Funds	683,136	223,471		4,570,222	5,476,829	
Proceeds from Grant Receipts	463,151	153,803			616,954	
Proceeds of Advances from Other Funds		40,572			40,572	
Proceeds from Other Financing Activities	78,627			338,922	417,549	
Payments of Principal on Debt Issuance	(218)	(115,036)		(653,314)	(768,568)	
Payments of Interest	(118)	(104,883)		(211,215)	(316,216)	
Payments of Other Costs on Debt Issuance	(10)	(177)		(1,669)	(1,856)	
Payments for Transfers to Other Funds	(585,087)	(340,916)		(5,835,359)	(6,761,362)	
Payments for Grant Disbursements	(76)	(10,041)			(10,117)	
Payments for Advances to Other Funds	(21)	(55,520)			(55,541)	
Payments for Other Uses	(527,977)			(171,590)	(699,567)	
Net Cash Provided by Noncapital Financing Activities	5,168,805	417,368	0	(1,611,185)	3,974,988	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets	2,987				2,987	
Proceeds from Debt Issuance	2,749,808		775,070		3,524,878	
Proceeds from State Grants and Contracts	22,092				22,092	
Proceeds from Federal Grants and Contracts	2,735				2,735	
Proceeds from Gifts	11,960				11,960	
Proceeds from Other Financing Activities	3,366		12	517	3,895	
Proceeds from Capital Contributions	254,554				254,554	
Proceeds of Advances from Other Funds	64,171				64,171	
Payments for Additions to Capital Assets	(2,294,549)		(89,130)	(2,034)	(2,385,713)	
Payments of Principal on Debt Issuance	(1,646,011)		(775,070)	(330)	(2,421,411)	
Payments for Capital Leases	(353)				(353)	
Payments of Interest on Debt Issuance	(302,262)		(93,362)	(1,480)	(397,104)	
Payments of Other Costs on Debt Issuance	(57,411)		(487)	(286)	(58,184)	
Net Cash Provided by Capital and Related Financing Activities	(1,188,913)	0	(182,967)	(3,613)	(1,375,493)	0

Concluded on the following page

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds	Totals	Governmental Activities – Internal Service Fund*
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Investments	$34,415,345	$	$ 138,419	$3,234,305	$37,788,069	$
Proceeds from Interest and Investment Income	1,468,869	169,664	27,357	262,253	1,928,143	1,553
Proceeds from Principal Payments on Loans	53	189,626			189,679	
Payments for Nonprogram Loans Provided		(560,162)		(6)	(560,168)	
Payments to Acquire Investments	(35,268,423)	(226,729)	(60,000)	(3,097,241)	(38,652,393)	(22,097)
Net Cash Provided by Investing Activities	615,844	(427,601)	105,776	399,311	693,330	(20,544)
Net Increase in Cash and Cash Equivalents	441,501	(19,594)	(74,424)	(328,470)	19,013	(8,437)
Cash and Cash Equivalents, September 1, 2007	3,601,965	251,060	461,570	3,265,342	7,579,937	31,666
Restatements	(1,284)			(497,369)	(498,653)	(54)
Cash and Cash Equivalents, September 1, 2007, as Restated	3,600,681	251,060	461,570	2,767,973	7,081,284	31,612
Cash and Cash Equivalents, August 31, 2008	$ 4,042,182	$231,466	$ 387,146	$2,439,503	$ 7,100,297	$ 23,175
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating Income (Loss)	$ (6,401,248)	$ 69,876	$ (18,071)	$ 966,120	$ (5,383,323)	$ (27,675)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation and Amortization	1,043,420		15,882	5,654	1,064,956	
Bad Debt Expense	251,355	14		865	252,234	
Operating Income (Loss) and Cash Flow Categories Classification Differences	(4,509)	(79,193)		104,148	20,446	24
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(467,650)		(165)	161,255	(306,560)	1,658
(Increase) Decrease in Due From Other Funds	(7,300)		5,096		(2,204)	1,021
(Increase) Decrease in Inventories	(2,776)			(510)	(3,286)	
(Increase) Decrease in Notes Receivable	493				493	
(Increase) Decrease in Loans and Contracts	(12,296)			(19,988)	(32,284)	
(Increase) Decrease in Other Assets	(12,958)			30,574	17,616	
(Increase) Decrease in Prepaid Expenses	(54,812)			(43)	(54,855)	
(Increase) Decrease in State Appropriations	(8,647)				(8,647)	
Increase (Decrease) in Payables	607,901	(29)	(2,759)	(183,800)	421,313	33,072
Increase (Decrease) in Deposits	2,911				2,911	
Increase (Decrease) in Due To Other Funds	464	(29)		27	462	3,973
Increase (Decrease) in Unearned Revenue	180,539		2,784	45,456	228,779	34
Increase (Decrease) in Compensated Absence Liability	34,815			35	34,850	
Increase (Decrease) in Benefits Payable	560,515				560,515	
Increase (Decrease) in Other Liabilities	135,548			(222,776)	(87,228)	
Total Adjustments	2,247,013	(79,237)	20,838	(79,103)	2,109,511	39,782
Net Cash Provided by Operating Activities	$ (4,154,235)	$ (9,361)	$ 2,767	$ 887,017	$ (3,273,812)	$ 12,107
NONCASH TRANSACTIONS						
Net Change in Fair Value of Investments	$ (2,040,292)	$ (161)	$ (152)	$ (71,554)	$ (2,112,159)	$ 4,560
Donation of Capital Assets	$ 93,875	$	$	$	$ 93,875	$
Borrowing Under Capital Lease Purchase	$ 3,865	$	$	$	$ 3,865	$
Other	$ (27,914)	$	$	$ (2,197)	$ (30,111)	$

The accompanying notes to the financial statements are an integral part of this statement.

* Employees life, accident and health insurance benefits fund – no combining statements presented.

STATE OF TEXAS

Statement of Fiduciary Net Assets

August 31, 2008 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private-Purpose Trust Funds	Agency Funds
ASSETS				
Cash and Cash Equivalents	$ 15,186,834	$ 666,035	$ 44,412	$ 1,154,730
Restricted Cash and Cash Equivalents			789	
Securities Lending Collateral	25,617,840		32,763	
Investments:				
U.S. Government	16,676,380	8,124,776	21,206	324,462
Corporate Equity	42,348,632		738,607	160,239
Corporate Obligations	7,268,078		82,319	125
Repurchase Agreements	880,995	8,556,171	568,246	47,676
Foreign Securities	27,372,544			
Other	18,406,989	47,406	1,601,335	26,212
Receivables:				
Interest and Dividends	450,957	19,237	3,148	1,159
Accounts	238,777		334	8,525
Other Intergovernmental				1,338
Investment Trades	130,475		1,574	
Other	384		1,708	8
Due From Other Funds (Note 12)	247,715		32	1,332
Inventories			1	
Properties, at Cost, Net of Accumulated Depreciation	35,477		997	
Other Assets	250		76,470	1,875,464
Total Assets	154,862,327	17,413,625	3,173,941	3,601,270
LIABILITIES				
Payables:				
Accounts	$ 257,085	$ 37,792	$ 14,974	$ 22
Investment Trades	308,711		2,772	
Payroll	105			
Other Intergovernmental				791,720
Interest			44	
Annuities	520,293			
Due To Other Funds (Note 12)	40,128			414
Unearned Revenue	28,872		176	
Employees' Compensable Leave	6,313			
Obligations/Securities Lending	26,004,315		32,763	
Funds Held for Others			76,469	2,809,114
Other Liabilities		751	39	
Total Liabilities	27,165,822	38,543	127,237	3,601,270
NET ASSETS				
Held in Trust for:				
Pension Benefits and Other Purposes	127,696,505			
Individuals, Organizations and Other Governments			3,046,704	
Pool Participants		17,375,082		
Total Net Assets	$127,696,505	$ 17,375,082	$ 3,046,704	$ 0

The accompanying notes to the financial statements are an integral part of this statement.

* Texas Government Investment Pool (TexPool) Trust Fund - no combining statements presented.

STATE OF TEXAS

Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private-Purpose Trust Funds
ADDITIONS			
Contributions:			
Member Contributions	$ 2,505,049	$	$
State Contributions	2,571,286		
Premium Contributions	761,545		
Federal Contributions	92,450		13,760
Other Contributions	516,148		84,029
Total Contributions	6,446,478	0	97,789
Investment Income:			
From Investing Activities:			
Net Depreciation in Fair Value of Investments	(10,594,741)		(194,237)
Interest and Investment Income	4,100,248	716,731	52,662
Total Investing Income (Loss)	(6,494,493)	716,731	(141,575)
Less Investing Activities Expense	63,490	10,293	1,021
Net Income (Loss) from Investing Activities	(6,557,983)	706,438	(142,596)
From Securities Lending Activities:			
Securities Lending Income	1,189,074		2,155
Less Securities Lending Expense:			
Borrower Rebates	901,754		2,000
Management Fees	39,676		
Net Income from Securities Lending	247,644	0	155
Total Net Investment Income (Loss)	(6,310,339)	706,438	(142,441)
Capital Share and Individual Account Transactions:			
Net Increase in Participant Investments	0	215,661	0
Other Additions:			
Settlement of Claims	25		3,403
Other Revenue	1,052		258,985
Loss on Sale of Properties	(10)		
Transfer In (Note 12)	99,803		10
Total Other Additions	100,870	0	262,398
Total Additions	237,009	922,099	217,746
DEDUCTIONS			
Benefits	9,340,614		56,427
Refunds of Contributions	350,060		
Transfer Out (Note 12)	62,319		1,754
Intergovernmental Payments			96,649
Administrative Expenses	49,659		7,252
Depreciation Expense	1,106		39
Settlement of Claims			57,440
Interest Expense	140		21
Other Expenses	2,994		234,065
Total Deductions	9,806,892	0	453,647
INCREASE (DECREASE) IN NET ASSETS	(9,569,883)	922,099	(235,901)
NET ASSETS			
Net Assets, September 1, 2007	137,266,388	16,452,983	3,282,605
Net Assets, August 31, 2008	$ 127,696,505	$ 17,375,082	$ 3,046,704

The accompanying notes to the financial statements are an integral part of this statement.

* Texas Government Investment Pool (TexPool) Trust Fund - no combining statements presented.

State of Texas
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Note 1

Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accompanying basic financial statements of the state of Texas have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The state implemented the following GASB Statements and GASB Technical Bulletin in fiscal 2008.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was implemented. This statement establishes standards for items reported in the financial reports of state and local governmental employers that provide other postemployment benefits (OPEB) to retirees. OPEB includes post employment healthcare and other benefits such as life insurance when provided separately from a pension plan.

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, was implemented. This statement provides guidance on accounting for collateralized borrowings and sales of future revenues and receivables.

GASB Statement No. 50, *Pension Disclosures*, was implemented. This statement brings pension disclosures into alignment with those required for other postemployment plans.

GASB Technical Bulletin 2004-2, *Recognition of Pension and other Postemployment Benefit Expenditures/ Expense and Liabilities by Cost-Sharing Employers*, was implemented. This bulletin clarifies recognition requirements for cost-sharing employers related to pension and OPEB plans.

Financial reporting for the state is based on all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions and Accounting Research Bulletins issued on or before Nov. 30, 1989, that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after Nov. 30, 1989, are not followed in the preparation of the accompanying financial statements.

FINANCIAL REPORTING ENTITY

For financial reporting purposes, the state of Texas has included all funds, agencies, boards, commissions, authorities, colleges and universities and other organizations that comprise its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would cause the financial statements to be misleading or incomplete if they were excluded. All activities considered part of the state are included. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits and teacher retirement benefits.

The reporting entity for the state is in accordance with the criteria established by GASB. A listing and brief summary of the component units and their relationship to the state of Texas is discussed in Note 19. These financial statements present the state of Texas (the primary government) and its component units.

The state's public school districts and junior and community colleges are excluded from the reporting entity. The state is not financially accountable for these entities. They are legally separate entities that are fiscally independent of the state. This independence warrants their exclusion from the financial statements.

FINANCIAL REPORTING STRUCTURE

The basic financial statements include both government-wide financial statements and fund financial statements. The reporting model based on GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, focuses on the state as a whole in the government-wide financial statements and major individual funds in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) display information about the state as a whole and the change in aggregate financial position resulting from the activities of the fiscal period, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state (including its blended component units) as well as its discretely presented component units. In the statement of net assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reflected on a full accrual, economic resource basis, which incorporates noncurrent investments, capital assets as well as long-term debt and obligations.

The statement of activities reflects both the gross and net cost per functional category (public safety, transportation, etc.), which is otherwise supported by general government revenues (sales, use, franchise taxes, etc.). In the statement of activities, program revenues are netted against program expenses, which include depreciation, to present the net cost of each program. Program revenues must be directly associated with the function or with a business-type activity. Internally dedicated resources are reported as general revenues rather than program revenues. Certain general government administrative overhead expenses have been charged to the various functions of the state. These charges are paid from applicable funding sources and are reflected as direct expenses. The amount of direct interest expense included in direct expenses in the statement of activities is $53.9 million.

Program revenues include (a) charges for services, (b) operating grants and contributions and (c) capital grants and contributions. Charges for services include special assessments and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. Multipurpose grants that provide financing for more than one program are reported as program revenue if the amounts restricted to each program are specifically identifiable. Multipurpose grants that do not provide for specific identification of the programs and amounts are reported as general revenues.

The state's fiduciary funds are presented in the fund financial statements by type (pension and other employee benefit trust, investment trust, private-purpose and agency). The assets of the fiduciary funds are held for the benefit of others and cannot be used to address activities or obligations of the government. They are not, therefore, incorporated into the government-wide financial statements.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental and fiduciary funds, assets and liabilities are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format that distinguishes between all current and noncurrent assets and liabilities. Current assets in the classified format are those considered available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables and short-term investments. All other assets are considered noncurrent. Current liabilities are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

The major governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate (a) compliance with legal and covenant requirements, (b) the source and use of financial resources and (c) how the state's actual experience conforms to the budget. Since the governmental fund financial statements are presented using a different measurement focus and basis of accounting than the government-wide financial statements, governmental activities column, a reconciliation is presented. This explains the adjustments required to restate the fund-based financial statements for the government-wide financial statements' governmental activities column.

The state uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. State transactions are recorded in the fund types described below.

Governmental Fund Types

Governmental funds focus on the sources and uses of funds. Included in the governmental fund financial statements are general, special revenue, debt service, capital projects and permanent funds. The general fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special revenue funds account for specific revenue proceeds that are legally restricted for specific purposes. Debt service funds account for the accumulation of resources for and the payment of general long-term debt principal and interest. Capital projects funds account for financial resources used for the acquisition, repair, renovation or construction of major capital facilities other than those financed by proprietary or similar trust funds. Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below.

The **General Fund** includes transactions for general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreation and regulatory services.

The **State Highway Fund** receives funds allocated by law for public road construction, maintenance, monitoring and law enforcement of the state's highway system.

The **Permanent School Fund** is an investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas. All dividends and other income are allocated to the credit of the available school fund.

Proprietary Fund Types

Proprietary funds focus on determining operating income, changes in net assets, financial position and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are enterprise funds and an internal service fund.

Enterprise funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met:

- The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity,
- Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, or
- The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal service funds account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement basis. The employees life, accident and health insurance benefits fund, presented on the proprietary fund financial statements, is used to account for the services provided by the Group Insurance Program to other agencies of the reporting entity.

The state's major enterprise funds are listed below.

The **Colleges and Universities** include University of Texas System, Texas A&M University System, Texas Tech University System, University of Houston System, Texas State University System, University of North Texas System, Texas Woman's University, Stephen F. Austin State University, Texas Southern University, Midwestern State University and Texas State Technical College. They are represented as a single column in the proprietary fund financial statements and individually in the schedules of colleges and universities in the other supplementary information section of this report.

The **Texas Water Development Board** funds include water development funds, agricultural water conservation funds and water pollution control revolving funds that issue bonds to provide assistance to political subdivisions.

The **Texas Department of Transportation Turnpike Authority** receives proceeds from the sale of bonds that are used to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase (referred to as the "FY2002 Project") of the Central Texas Turnpike System.

Fiduciary Fund Types

Fiduciary funds account for assets held by the state in either a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund or a private-purpose trust fund is used.

Pension and other employee benefit trust funds report resources held in trust for the members and beneficiaries of defined benefit pension plans. Additional information about pension trust funds can be found in Note 9.

Investment trust funds report the external portions of investment pools reported by the sponsoring government.

Private-purpose trust funds report all other trust arrangements whose principal and interest benefit individuals, private organizations or other governments.

Agency funds report assets the state holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt and remittance of fiduciary resources to individuals, private organizations or other governments.

Component Units

All of the component units for the state of Texas are reported as nonmajor component units. The combining statement of net assets - component units and the combining statement of activities - component units are presented for all of the discrete component units.

Additional information about blended and discretely presented component units can be found in Note 19. More detailed information of the individual component units is available from the component units' separately issued financial statements.

BASIS OF ACCOUNTING, MEASUREMENT FOCUS AND FINANCIAL STATEMENT PRESENTATION

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources and obligations of the reporting government, both current and noncurrent, are reported in the government-wide financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The state of Texas considers all major revenue reported in the governmental funds to be available if the revenues are due at year end and collected within 60 days thereafter.

Under the modified accrual basis of accounting, as used in the governmental fund financial statements, a receivable that is not expected to be collected within

60 days is not available to liquidate the liabilities of the current period and will be reported as deferred revenue. Deferred revenue also includes unearned revenue when cash or other assets are received prior to being earned.

Under the full accrual basis of accounting, as used in the government-wide statements, proprietary fund statements, and fiduciary fund statements, unearned revenue is recorded when cash or other assets are collected in advance before the revenue recognition criteria are met.

Expenditures and other uses of financial resources are recognized when the related liability is incurred. Although agency funds use the accrual basis of accounting, they do not have a measurement focus because they do not recognize revenues and expenditures.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the state are reported as reductions of the related liabilities rather than as expenditures. Proprietary fund types, pension and other employee benefit trust funds, investment trust funds and private-purpose trust funds are reported on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Proprietary funds distinguish operating from nonoperating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Budgetary Information

The budgetary comparison schedule and the notes to the budgetary comparison schedule are in the required supplementary information other than Management Discussion and Analysis section. The budgetary comparison schedule presents the original budget, the final budget and the actual activity of the major governmental funds. Reconciliations for the general fund and the state highway fund budgetary basis to the GAAP basis are presented as required supplementary information with explanations of the reconciling items. Budgetary information for nonmajor governmental funds is presented as other supplementary information.

Cash and Cash Equivalents

For reporting purposes, this account includes cash on hand, cash in transit, cash in local banks, cash in the Federal and State Treasuries and cash equivalents. Cash in local banks is primarily held by special revenue funds, employee benefit trust funds, enterprise funds and component units. Cash balances of most state funds are pooled and invested by the Treasury Operations Division of the Comptroller's office. Interest earned is deposited in the general revenue fund and specified funds designated by law.

The statement of cash flows for proprietary funds shows the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less and that are used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for securities lending are not included as cash equivalents on the statement of cash flows.

Investments

Investments are reported at fair value in the balance sheet or other statement of financial position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale or through consultation with industry advisors. Certain money market investments may be reported at amortized cost provided the investment has a remaining maturity of one year or less at time of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in

the operating statement or statement of activities. The distribution to the available school fund is based on the total return based formula methodology discussed in Note 22. The amount of transfers allocated to the available school fund is $716.5 million. The objective, significant terms and risks of derivative investments at Aug. 31, 2008, can be found in Note 3.

Receivables and Payables

The major receivables for governmental activities and business-type activities are taxes and investment trade, respectively. See Note 24 for details on taxes receivable. All receivables are shown net of uncollectible amounts. Other receivables consist primarily of food stamp and nutrition assistance program receivables in the general fund and receivables from private sponsored programs in the colleges and universities fund. Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances between funds are reported as "due from/due to other funds." Any residual balances between governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

Noncurrent interfund receivables between funds, as shown in Note 12, are reported as a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable financial resources.

Trade receivables are reported for sales of investments pending settlement. Trade payables are purchases of investments pending settlement.

Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost generally utilizing the last-in, first-out method.

The consumption method of accounting is used to account for inventories that appear in both governmental and proprietary fund types. The cost of these items is expensed when the items are consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in both government-wide financial statements and fund financial statements.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include certain proceeds of enterprise fund general obligation and revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

Capital Assets

Capital assets are reported in proprietary funds, trust funds and government-wide financial statements. The capitalization threshold and the estimated useful life of the assets vary depending upon the asset type. Note 2 includes a chart identifying the capitalization threshold and the estimated useful life by asset type. It also provides information on the state's depreciation policy and other detailed information.

GASB 34 allows an alternative (modified) approach that reflects a reasonable value of the asset and cost required to maintain the service potential at established minimum standards in lieu of depreciation. The state has elected to use this option for its highway infrastructure. The state has developed and implemented an asset management system that establishes minimum standards and makes a yearly determination whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state's system of highways are included in the required supplementary information other than MD&A section of this report.

Long-Term Liabilities

Reporting long-term liabilities in the statement of net assets requires two components (a) the amount due in one year (current) and (b) the amount due in more than one year (noncurrent).

General long-term liabilities consist of the noncurrent portion of capital lease obligations, compensable leave, claims and judgments and other noncurrent liabilities. General long-term liabilities are not reported as liabilities

in governmental funds but are reported in the governmental activities column in the government-wide statement of net assets. The state reports rebatable arbitrage in claims and judgments. General long-term debt is not limited to liabilities arising from debt issuances but may also include noncurrent liabilities on lease-purchase agreements and other commitments that are not current liabilities properly recorded in governmental funds.

In the government-wide financial statements and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line or the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Employees' Compensable Leave Balances

GASB Statement No. 16, *Accounting for Compensated Absences*, establishes standards of accounting and reporting for compensated absences (vacation, unpaid overtime and sick leave) by state and local governmental entities. GASB 34 requires governments to report and disclose the portion of compensated absences that is due within one year of the statement date.

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics is accrued as a liability as the benefits are earned by the employee if both the employee's right to receive compensation is attributable to services already rendered and it is probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees accrue vacation time at a rate of eight to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

Overtime, under the federal Fair Labor Standards Act and state laws, can be accumulated in lieu of immediate payment as compensatory leave (at one-and-one-half hours for each overtime hour worked) for nonexempt, nonemergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. For emergency personnel (firefighters, law enforcement, prison officers, etc.), overtime can be accumulated to a maximum of 480 hours. Unpaid overtime must be included in the calculation of current and noncurrent liabilities for each employee since it may be used like compensatory time or be paid.

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave and it is nontransferable. Compensatory leave is reported as a current liability.

Sick leave is accrued at a rate of eight hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. A member who retires based on service or a disability is entitled to service credit in the retirement system for unused sick leave on the last day of employment. The maximum amount of the state's contingent obligation for sick leave has not been determined. The probability of a material impact on state operations in any given fiscal year is considered remote.

Capital Lease Obligations

Capital lease contracts payable, which are not funded by current resources, represent the liability for future lease payments under capital lease contracts. Note 7 provides details for capital lease obligations.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year or years.

Net Assets

Invested in capital assets, net of related debt consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes or other debt attributable to the acquisition, construction or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is included in restricted for capital projects.

The state reports net assets as restricted when constraints placed on net assets are (a) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Restricted net assets are designated as either expendable or nonexpendable. Expendable restricted net assets are those funds that may be expended for either a stated purpose or for a general purpose subject to externally imposed stipulations. Nonexpendable restricted net assets are those funds that are required to be retained in perpetuity. Restricted net assets include the state's permanent endowment funds subject to externally imposed restrictions governing their use.

Unrestricted net assets consist of net assets that do not meet the definition of invested in capital assets, net of related debt or restricted net assets.

When both restricted and unrestricted net assets are available for use, it is the state's policy to use restricted resources first and then unrestricted resources as they are needed.

Fund balance reserve and designated fund balances for governmental funds are classified to reserved, unreserved/designated or unreserved/undesignated. Reserved fund balances are (a) funds legally segregated for a specific use or (b) assets that, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes. Designations reflect senior management's self-imposed limitations on the use of available current financial resources. Note 13 presents disaggregated fund balances.

Interfund Activity and Transactions - Government-wide Financial Statements

GASB 34 established a classification system with terms and definitions for interfund activity and modified requirements for reporting transfers.

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements with the exception of activities between governmental activities and business-type activities. Interfund activity with fiduciary funds has been reclassified and reported as external activity.

Interfund payables and receivables have been eliminated from the statement of net assets except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net assets. Interfund activities between the primary government and component units with a different year end are limited and immaterial. Note 12 provides details of interfund activities and transactions.

Interfund Transactions

Interfund transactions with discretely presented component units have been reclassified and reported as external activity.

Risk Financing

The state maintains a combination of commercial insurance and a self-insurance program. The state is self-insured for workers' compensation and unemployment compensation

claims and funds the liabilities on a pay-as-you-go basis. The state's group insurance program is provided through a combination of insurance contracts, a self-funded health plan and health maintenance organization contracts.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. For additional information, see Note 17.

Note 2

Capital Assets

Assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Based on the requirements of GASB Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments*, depreciation is reported on all "exhaustible" assets. "Inexhaustible assets," such as works of art and historical treasures, are not depreciated. Professional, academic and research library books and materials are considered "exhaustible" assets and are depreciated. All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost if actual historical cost is not available. Donated assets are reported at fair value on the acquisition date. Assets are depreciated over the estimated useful life of the asset using the straight-line method. The capitalization threshold and useful lives are as follows.

Capitalization of Assets

Type	Capitalization Threshold	Estimated Useful Life
Land and Land Improvements	$ 0	Not applicable
Infrastructure, Non-Depreciable	0	Not applicable
Construction in Progress	0	Not applicable
Buildings and Building Improvements	100,000	5-30 years
Infrastructure, Depreciable	500,000	10-50 years
Facilities and Other Improvements	100,000	10-60 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats and Aircraft	5,000	5-40 years
Other Capital Assets (Libraries, Leasehold Improvements and Livestock)	Various	0-22 years

Historical cost records for some land and mineral interests are incomplete or not available. Accordingly, historical costs have been estimated. The effect on the financial statements of any error resulting from assumptions and estimates is not considered material.

Most land improvements (infrastructure), including curbs, sidewalks, fences, bridges and lighting systems, are capitalized. The state's highway infrastructure, expected to be maintained in perpetuity, is reported using the modified approach allowed by GASB 34.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental activities in accordance with GASB Statement No. 37, *Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments: Omnibus*. For proprietary fund types and trust funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized.

The schedule on the following pages presents the composition of the state's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2008. The adjustment column includes assets that were not previously reported, accounting errors and other changes. The reclassifications column shows completed construction projects and transfers of capital assets between agencies. The additions column includes current year purchases and depreciation. The deletions column shows assets removed during the current year.

Capital Asset Activity

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/07	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/08
GOVERNMENTAL ACTIVITIES						
Nondepreciable Assets						
Land and Land Improvements	$ 7,278,244	$ (87)	$ 5,421	$ 540,151	$ (1,818)	$ 7,821,911
Infrastructure	41,358,055	(39,029)	2,859,300			44,178,326
Construction in Progress	4,623,788	(2,271)	(3,653,965)	3,686,707		4,654,259
Other Capital Assets	181,198	(1)		186	(321)	181,062
Total Nondepreciable Assets	53,441,285	(41,388)	(789,244)	4,227,044	(2,139)	56,835,558
Depreciable Assets						
Buildings and Building Improvements	5,182,546	(18)	74,275	8,809	(9,815)	5,255,797
Infrastructure	16,108,502	38,724	703,378	3,300	(90,778)	16,763,126
Facilities and Other Improvements	199,956	(1)	7,177	377	(789)	206,720
Furniture and Equipment	1,089,879	(8,955)	722	69,062	(58,014)	1,092,694
Vehicles, Boats and Aircraft	940,857	(2,671)	1,809	99,213	(57,706)	981,502
Other Capital Assets	97,050	(16)	2,785	4,676	(1,355)	103,140
Total Depreciable Assets at Historical Cost	23,618,790	27,063	790,146	185,437	(218,457)	24,402,979
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(2,639,636)	159	(495)	(165,430)	6,760	(2,798,642)
Infrastructure	(9,068,916)	(1,476)		(523,092)	73,257	(9,520,227)
Facilities and Other Improvements	(115,839)			(7,327)	584	(122,582)
Furniture and Equipment	(834,757)	3,126	1,172	(76,729)	53,847	(853,341)
Vehicles, Boats and Aircraft	(551,759)	(219)	(1,815)	(61,628)	49,185	(566,236)
Other Capital Assets	(46,442)	(101)	200	(5,431)	1,153	(50,621)
Total Accumulated Depreciation*	(13,257,349)	1,489	(938)	(839,637)	184,786	(13,911,649)
Depreciable Assets, Net	10,361,441	28,552	789,208	(654,200)	(33,671)	10,491,330
Governmental Activities Capital Assets, Net	$ 63,802,726	$ (12,836)	$ (36)	$ 3,572,844	$ (35,810)	$ 67,326,888

* Depreciation expense was charged to Governmental Activities as follows:

General Government	$ 46,125
Education	4,994
Employee Benefits	2
Health and Human Services	39,954
Public Safety and Corrections	149,331
Transportation	571,164
Natural Resources and Recreation	25,639
Regulatory Services	2,428
Total Governmental Activities Depreciation Expense	$ 839,637

Concluded on the following page

Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Balance 9/1/07	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/08
BUSINESS-TYPE ACTIVITIES						
Nondepreciable Assets						
Land and Land Improvements	$ 1,274,455	$ (2,817)	$ 2,539	$ 159,669	$ (294)	$ 1,433,552
Construction in Progress	2,041,057	(3,568)	(1,806,011)	1,718,898		1,950,376
Infrastructure	1,233,841		371,753			1,605,594
Other Capital Assets	326,741	(17)	31	11,567	(9,196)	329,126
Total Nondepreciable Assets	4,876,094	(6,402)	(1,431,688)	1,890,134	(9,490)	5,318,648
Depreciable Assets						
Buildings and Building Improvements	15,129,699	4,240	1,223,798	252,451	(33,182)	16,577,006
Infrastructure	1,061,644	664	81,363	2,998	(3)	1,146,666
Facilities and Other Improvements	1,084,384	(4,176)	65,975	15,984	(9,198)	1,152,969
Furniture and Equipment	3,578,971	(2,251)	57,221	434,474	(200,763)	3,867,652
Vehicles, Boats and Aircraft	188,316	(71)	(1,135)	31,085	(11,060)	207,135
Other Capital Assets	1,214,717	(1,184)	3,478	59,350	(15,615)	1,260,746
Total Depreciable Assets at Historical Cost	22,257,731	(2,778)	1,430,700	796,342	(269,821)	24,212,174
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(6,584,543)	(2,605)	141	(550,069)	27,799	(7,109,277)
Infrastructure	(395,365)	(19)		(37,598)	3	(432,979)
Facilities and Other Improvements	(471,150)	2,274		(39,613)	5,882	(502,607)
Furniture and Equipment	(2,327,964)	(10,366)	(905)	(359,085)	178,559	(2,519,761)
Vehicles, Boats and Aircraft	(138,287)	(50)	1,788	(15,793)	10,513	(141,829)
Other Capital Assets	(733,855)	92		(61,914)	12,883	(782,794)
Total Accumulated Depreciation**	(10,651,164)	(10,674)	1,024	(1,064,072)	235,639	(11,489,247)
Depreciable Assets, Net	11,606,567	(13,452)	1,431,724	(267,730)	(34,182)	12,722,927
Business-Type Activities Capital Assets, Net	$ 16,482,661	$ (19,854)	$ 36	$ 1,622,404	$ (43,672)	$ 18,041,575
COMPONENT UNITS						
Nondepreciable Assets						
Land and Land Improvements	$ 3,469	$	$	$	$	$ 3,469
Construction in Progress	651		(455)	2,360		2,556
Total Nondepreciable Assets	4,120	0	(455)	2,360	0	6,025
Depreciable Assets						
Buildings and Building Improvements	39,792			563		40,355
Facilities and Other Improvements	370			39		409
Furniture and Equipment	32,005		455	4,972	(1,587)	35,845
Vehicles, Boats and Aircraft	23,158			984	(2,906)	21,236
Other Capital Assets	3				(1)	2
Total Depreciable Assets at Historical Cost	95,328	0	455	6,558	(4,494)	97,847
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(8,560)			(852)		(9,412)
Facilities and Other Improvements	(254)	46		(54)		(262)
Furniture and Equipment	(22,168)	122		(3,309)	1,568	(23,787)
Vehicles, Boats and Aircraft	(15,874)			(2,240)	1,897	(16,217)
Other Capital Assets				(2)		(2)
Total Accumulated Depreciation	(46,856)	168	0	(6,457)	3,465	(49,680)
Depreciable Assets, Net	48,472	168	455	101	(1,029)	48,167
Component Units Capital Assets, Net	$ 52,592	$ 168	$ 0	$ 2,461	$ (1,029)	$ 54,192

** Depreciation expense was charged to business-type activities as follows:

Colleges and Universities	$ 1,043,420
Other Business-Type Activities	21,536
Total Business-Type Activities Depreciation Expense	$ 1,064,956

Note 3

Deposits, Investments and Repurchase Agreements

LEGAL AND CONTRACTUAL PROVISIONS

Authority for Investments

All monies in funds established in the Treasury Operations Division - Comptroller's office (Treasury) by the state Constitution or by an act of the Legislature are pooled for investment purposes. State statutes authorize the Treasury to invest state funds in fully collateralized time deposits, direct security repurchase agreements, reverse repurchase agreements, obligations of the United States, obligations of various federal credit organizations, bankers' acceptances, commercial paper and contracts written by the Comptroller, which are commonly known as covered call options.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during and at the end of the day. The Trust Company met those requirements throughout fiscal 2008. The Trust Company safekeeps U.S. Government securities in book-entry form for the major investment funds of the state, safekeeps collateral pledged to secure deposits of the Treasury in financial institutions and acts as trustee for other public bodies to hold and manage funds on their behalf.

Certain state agencies, component units and colleges and universities, are authorized to invest funds not deposited with the Treasury. The Texas Education Agency (TEA) and the Employees Retirement System (ERS) make investments following the "prudent person rule." The University of Texas System (UT) and Teacher Retirement System (TRS) comply with the "prudent investor rule" when making investments. Authorized investments include equities, fixed income obligations, cash equivalents and alternative investments.

Collateralization

State law requires that all Treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by pledging, to the Treasury, securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all United States Treasury obligations, most agency obligations and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank doing business in the state through a main office or one or more branches, any Federal Reserve Bank, the Trust Company, any Federal Home Loan Bank or in the vault of the Treasury. During fiscal 2008 no depository holding state funds failed.

State agencies and institutions of higher education with deposits of public funds that are not managed by the Treasury are required to secure deposits through collateral pledged by depository banks and savings and loans. Eligible collateral securities are prescribed by state law; however, retirement systems are exempt by statute from this requirement.

External Investment Pool

The state reports the Texas Government Investment Pool (TexPool) trust fund as an external investment trust fund. A separate report for TexPool can be obtained from the Trust Company.

Deposits

As of Aug. 31, 2008, the carrying amount of deposits for governmental and business-type activities was $950.9 million, for fiduciary funds was $262.6 million and for discretely presented component units was $68 million. These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included on the combined statement of net assets as part of the "Cash and Cash Equivalents," "Securities Lending Collateral" and "Investments" accounts. As of Aug. 31, 2008, the total bank balance for governmental and business-type activities was $1 billion, for fiduciary funds was $259.6 million and for discretely presented component units was $67.8 million.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the state will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The state does not have a deposit policy for custodial credit risk. The state's securities lending programs are subject to custodial credit risk. This type of risk is inherent to the securities lending programs. Bank balances were exposed to custodial credit risk as follows.

Bank Balances Exposed to Custodial Credit Risk

August 31, 2008 (Amounts in Thousands)

	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	$ 6,892	$
Total Governmental Activities	6,892	0
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities	1,565	24,824
Other Nonmajor Funds	498	
Total Business-Type Activities	2,063	24,824
Total Governmental and Business-Type Activities	$ 8,955	$ 24,824
FIDUCIARY	$ 199,855	$ 0
COMPONENT UNITS	$ 170	$ 0

Foreign Currency Risk: Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. The state does not have a formal deposit policy related to foreign currency. Foreign currency deposits are intended for settlement of pending international investment trades. The exposure to foreign currency risk for bank balances at Aug. 31, 2008, is as follows.

Bank Balances Exposed to Foreign Currency Risk

August 31, 2008 (Amounts in Thousands)

	Governmental and Business-Type Activities	Pension and Other Employee Benefit Trust Funds
Australian Dollar	$ (9) *	$ 12,153
Brazilian Real	105	448
Canadian Dollar	85	12,318
Chilean Peso	44	77
Czech Koruna		776
Danish Krone		1,589
Euro	3,204	75,932
Hong Kong Dollar	360	6,771
Hungarian Forint		758
Indian Rupee		94
Indonesian Rupiah		(9) *
Japanese Yen	495	24,160
Malaysian Ringgit		287
Mexican Peso		656
New Israeli Sheqel		215
New Taiwan Dollar	1,839	9,339
New Turkish Lira	191	1,666
New Zealand Dollar	4	57
Norwegian Krone		2,187
Philippine Peso		305
Polish Zloty		847
Pound Sterling	28	36,326
Qatar Riyal	436	
Russian Ruble	(167) *	
Singapore Dollar		1,448
South African Rand		2,634
South Korean Won	111	355
Swedish Krona		2,818
Swiss Franc	1,108	4,534
Thai Baht		1,028
Total	$7,834	$ 199,769

* Balances are related to the timing of trade settlements.

Investment Fair Value

August 31, 2008 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary	Component Units
U.S. Treasury	$ 2,398,193	$ 10,125,342	$ 201,168
U.S. Treasury Strips	87,101	52,603	
U.S. Treasury TIPS	610,372	2,918,743	
U.S. Government Agency	22,287,691	13,583,485	621,678
Corporate Obligations	3,322,190	5,987,677	4,185
Corporate Asset and Mortgage Back	2,637,563	8,777,950	278,547
Corporate Equity	13,713,234	42,678,921	
International Obligations	1,071,615	5,149,673	99
International Equity	5,241,618	22,220,609	
International Other Commingled Funds	663,558	739,894	
Repurchase Agreements	6,672,842	10,927,364	133,172
Fixed Income and Bond Mutual Fund	3,540,741	380,395	8,528
Other Mutual Funds	5,116,266	924,241	21,998
Other Commingled Funds	7,967,649	524,596	6,921
Commercial Paper	3,174,959	1,007,743	15,407
Securities Lending Collateral Pool	4,487,982	25,617,840	
Securities Lending Collateral Investment Pool	599,234	32,763	
Real Estate	3,079,257		
Alternative Investments	13,370,215	16,089,334	
Other Investments	2,243,049	7,987,465	480,053
Total Investments	$102,285,329	$175,726,638	$1,771,756

Investments

The fair value of the state's investments is determined from published market prices, quotations from major investment brokers or independent pricing services. In general, the fair value of fixed income securities is based on yields currently available on comparable securities of issuers with similar credit ratings or on prices from fixed income pricing services or external broker quotes. The changes in the fair value of investments are reported as revenue in the operating statements.

Where no readily ascertainable market value exists (including private equity), fair values can be determined in consultation with investment advisors and Master Trust Custodians or based on the capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for subsequent contributions, distributions, management fees and reserves.

Investments in money market investments are reported at amortized cost which approximates market value. Participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less may also be reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

The state's investments at Aug. 31, 2008, are as shown.

TRS, TEA, ERS and UT participate in individual securities lending programs. Cash collateral received by the lending agent on behalf of each entity is invested in a non-commingled pool exclusively for the benefit of the individual entity. Additional information about the state's securities lending activity is disclosed in the "Securities Lending" section of this note. Balances by investment type for the invested securities lending cash collateral at Aug. 31, 2008, are as follows.

Invested Securities Lending Collateral Fair Value

August 31, 2008 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary
U.S. Treasury	$ 55,562	$ 732,837
U.S. Treasury TIPS		615,484
U.S. Government Agency	10,246	1,641,655
Corporate Obligations	407,699	1,568,662
Corporate Asset and Mortgage Back	613,058	7,229,961
Corporate Equity		2,842,541
International Equity		36,314
Repurchase Agreements	1,582,359	1,105,437
Commercial Paper	423,155	166,387
Other Investments	1,395,903	9,678,562
Total Investments	$ 4,487,982	$25,617,840

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the state will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The state does not have an investment policy for custodial credit risk. Consistent with the state's securities lending program, underlying securities on loans are subject to custodial credit risk.

At Aug. 31, 2008, the state's investments were exposed to custodial credit risk as follows.

Investments Exposed to Custodial Credit Risk

August 31, 2008 (Amounts in Thousands)

	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty's Trust Department or Agent But Not in the State's Name
GOVERNMENTAL ACTIVITIES		
Permanent School Fund		
Corporate Obligations	$	$ 296,807
Corporate Asset and Mortgage Back		631,917
Repurchase Agreements		1,135,587
Commercial Paper		7,984
Other Investments		1,385,901
Total Governmental Activities	0	3,458,196
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities		
Corporate Equity	1,965	
Other Proprietary Funds		
U.S. Treasury		29,581
U.S. Government Agency		3,150
Repurchase Agreements	114,999	
Total Business-Type Activities	116,964	32,731
Total Governmental and Business-Type Activities	$ 116,964	$ 3,490,927
FIDUCIARY		
Pension and Other Employee Benefit Trust Funds		
U.S. Treasury	2,795	470,412
U.S. Treasury TIPS		40,549
U.S. Government Agency		27,893
Corporate Obligations		208
Corporate Equity		3,287
International Equity		2,659
Other Commingled Funds		22,514
Total Fiduciary	$ 2,795	$ 567,522
COMPONENT UNITS		
U.S. Treasury	9,920	
Repurchase Agreements	70,847	
Total Component Units	$ 80,767	$ 0

Foreign Currency Risk: Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. TRS, TEA, ERS and UT have exposure to investment foreign currency risk. TRS manages the risk of holding investments in foreign currencies through asset allocation limits on various international investments. UT's investment policies were amended during the year to remove limitations on investments in non-U.S. denominated bonds. The amendments became effective March 1, 2008. Prior to the amendments, UT's investment policy limited investments in non-U.S. denominated bonds to 50 percent of its total fixed income exposure. TEA and ERS do not have an investment policy for managing foreign currency risk.

The state's exposure to foreign currency risk at Aug. 31, 2008, is as follows.

Investments Exposed to Foreign Currency Risk

August 31, 2008 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary		
	International Obligations	International Equity	Alternative Investments	International Other Commingled Funds	International Obligations	International Equity	Alternative Investments
Argentine Peso	$	$ 146	$	$	$	$	$
Australian Dollar	78,185	233,163		5,557		951,137	
Bermudan Dollar		321					
Brazilian Real	16,564	122,759			3,246	418,956	
Canadian Dollar	40,725	383,203		2,628	190,551	1,222,690	
Cayman Islands Dollar		20					
Chilean Peso		4,165				36,183	
Chinese Yuan		2,242					
Colombian Peso					443		
Czech Koruna		6,889				40,293	
Danish Krone	25,359	37,708		437		146,065	
Egyptian Pound		3,243				1,539	
Euro	236,826	1,217,547	391,480	37,561	1,793,948	5,530,462	1,255,570
Hong Kong Dollar	5,967	276,876		1,071		846,148	
Hungarian Forint		6,531		1	3,589	35,166	
Iceland Krona	11,451						
Indian Rupee		1,073				45,700	
Indonesian Rupiah	8,903	11,193			1,788	65,057	
Japanese Yen	152,121	865,316		5,001	423,116	3,127,861	
Malaysian Ringgit	39,041	17,165			1,324	91,905	
Mexican Peso	18,993	37,451		16	2,559	85,033	
Moroccan Dirham		1,521					
New Israeli Sheqel	6,002	9,563				34,502	
New Taiwan Dollar		61,251		1,039		295,149	
New Turkish Lira		13,309			2,367	53,978	
New Zealand Dollar	23,092	3,925		54		10,405	
Nigerian Naira					993		
Norwegian Krone		43,851		14		201,461	
Pakistani Rupee		490					
Peruvian Nuevo Sol		239			655		
Philippine Peso		5,321				8,744	
Polish Zloty	38,019	11,941	8	4	907	49,143	
Pound Sterling	77,060	817,074	2,630	8,140	1,528,516	3,132,352	33,827
Russian Ruble		5,205					
Singapore Dollar	12,422	65,980		494		199,606	
South African Rand	24,577	55,161			2,338	228,841	
South Korean Won		93,292				387,539	
Swedish Krona	16,961	77,428		6	179,474	344,389	
Swiss Franc		241,178		663		1,173,258	
Thai Baht		15,606			1,455	79,936	
Total	$832,268	$4,749,346	$394,118	$ 62,686	$4,137,269	$18,843,498	$1,289,397

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO).

TRS' investment policy establishes tracking error limits that are intended to reduce the tracking error of the asset class. In addition, the policy states that for over-the-counter derivatives, the minimum credit rating, based on a NRSRO, must be at least A- or better at the inception of the contract. For any counterparty that experiences deterioration in credit quality that results in a NRSRO rating below the A- level subsequent to the inception of the contract, additional eligible collateral must be posted. Repurchase agreements may not exceed 5 percent of the market value of the total investment portfolio, including cash and cash equivalents, unless those transactions are covered by a third-party indemnification agreement by an organization that bears a long-term NRSRO credit rating of A- or better and is enhanced by acceptable collateral. A securities lending agent must be an organization rated A- or better by a NRSRO.

TEA's investment policy requires investments to adhere to specific Standard & Poor's rating guidelines. Fixed income securities must be rated at least BBB- and short-term money market instruments must be rated at least A-1.

ERS' general investment policies require that noncash interest paying securities in the high yield bond portfolios not exceed 15 percent of the market value of the portfolio and that investments in money market funds represent no more than 5 percent of each individual fund.

UT's investment policies were amended to remove requirements and limitations regarding investment ratings. The amendments became effective March 1, 2008. Prior to that date investment policies limited investments in U.S. domestic bonds and non-dollar denominated bond investments to those that were rated investment grade, BBB- or better by Standard & Poor's. These requirements did not apply to investment managers that were authorized by the terms of an investment advisory agreement to invest in below investment grade bonds.

At Aug. 31, 2008, the state's credit quality distribution for securities with credit risk exposure was as follows.

Investments Exposed to Credit Risk

August 31, 2008 (Amounts in Thousands)

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
GOVERNMENTAL ACTIVITIES											
U.S. Government Agency	$ 8,030,938	$	$	$	$	$	$	$	$	$	$ 9,106,008
Corporate Obligations	588,547	1,569,658	934,113	280,433	27,436	30,536	1,713				603
Corporate Asset and Mortgage Back	2,664,876	91,088									
International Obligations			21,461	2,873	757						
Repurchase Agreements	4,119,519										2,534,101
Other Investments											135,776
Total Governmental Activities	$15,403,880	$1,660,746	$ 955,574	$ 283,306	$ 28,193	$ 30,536	$ 1,713	$ 0	$ 0	$ 0	$11,776,488
BUSINESS-TYPE ACTIVITIES											
U.S. Government Agency	$ 3,218,755	$	$	$	$	$	$	$	$	$	$ 259,127
Corporate Obligations	77,800	268,956	457,226	245,556	69,239	59,303	1,028	14			28,841
Corporate Asset and Mortgage Back	396,123	14,602	10,394	4,630	500	995					50,848
International Obligations	452,791	156,424	187,707	86,392	7,187	2,841					172,821
Repurchase Agreements	1,695,166	114,999									54,043
Alternative Investments											1,430
Other Investments	23,771	687,388	2,506	6,078	13,911	3,533					238,632
Total Business-Type Activities	$ 5,864,406	$1,242,369	$ 657,833	$ 342,656	$ 90,837	$ 66,672	$ 1,028	$ 14	$ 0	$ 0	$ 805,742
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES											
U.S. Government Agency	$11,249,693	$	$	$	$	$	$	$	$	$	$ 9,365,135
Corporate Obligations	666,347	1,838,614	1,391,339	525,989	96,675	89,839	2,741	14			29,444
Corporate Asset and Mortgage Back	3,060,999	105,690	10,394	4,630	500	995					50,848
International Obligations	452,791	156,424	209,168	89,265	7,944	2,841					172,821
Repurchase Agreements	5,814,685	114,999									2,588,144
Alternative Investments											1,430
Other Investments	23,771	687,388	2,506	6,078	13,911	3,533					374,408
Total Governmental and Business-Type Activities	$21,268,286	$2,903,115	$ 1,613,407	$ 625,962	$119,030	$ 97,208	$ 2,741	$ 14	$ 0	$ 0	$12,582,230
FIDUCIARY											
U.S. Government Agency	$11,900,163	$	$ 20,002	$	$	$	$	$	$	$	$ 512,783
Corporate Obligations	1,693,175	878,787	1,875,082	1,229,536	535,205	909,555	162,345	2,442	5,220	2,695	119,686
Corporate Asset and Mortgage Back	13,237,390	45,128	2,283,246	34,600	15,107	1,940	8,139				371,004
International Obligations	3,023,042	429,759	1,063,864	303,122	58,269	3,838					267,779
Repurchase Agreements	9,196,467		1,986,431								138,600
Other Investments	499,323	6,537,212	10,355,776			2,094					79,853
Total Fiduciary	$39,549,560	$7,890,886	$17,584,401	$1,567,258	$608,581	$917,427	$170,484	$2,442	$5,220	$2,695	$ 1,489,705
COMPONENT UNITS											
U.S. Government Agency	$ 594,765	$	$	$	$	$	$	$	$	$	$ 28,125
Corporate Obligations	907	1,655	1,623								
Corporate Asset and Mortgage Back	277,993										
International Obligations			98								
Repurchase Agreements	29,966										6,432
Total Component Units	$ 903,631	$ 1,655	$ 1,721	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 34,557

Concluded on the following page

Investments Exposed to Credit Risk (concluded)

August 31, 2008 (Amounts in Thousands)

	AAAf	AAAm	Aaf	NR
GOVERNMENTAL ACTIVITIES				
Fixed Income and Bond Mutual Fund	$4,783,413	$ 522	$	$ 1,470
BUSINESS-TYPE ACTIVITIES				
Fixed Income and Bond Mutual Fund	$2,428,907	$ 443,074	$ 66,043	$ 209,338
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES				
Fixed Income and Bond Mutual Fund	$7,212,320	$ 443,596	$ 66,043	$ 210,808
FIDUCIARY				
Fixed Income and Bond Mutual Fund	$ 353,641	$	$	$ 14,848
COMPONENT UNITS				
Fixed Income and Bond Mutual Fund	$ 21,999	$	$	$ 6,673

	A-1	A-2	NR
GOVERNMENTAL ACTIVITIES			
Commercial Paper	$3,222,323	$	$ 2,600
BUSINESS-TYPE ACTIVITIES			
Commercial Paper	$ 294,746	$ 1,185	$ 94,379
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES			
Commercial Paper	$3,517,069	$ 1,185	$ 96,979
FIDUCIARY			
Commercial Paper	$1,121,655	$	$
COMPONENT UNITS			
Commercial Paper	$ 15,407	$	$

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the state's investment in a single issuer. At Aug. 31, 2008, more than 5 percent of investments held by governmental activities were in securities issued by the Federal Home Loan Bank, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. These holdings were the result of the governmental activities' participation in the Treasury's internal investment pool. The Treasury places no limit on the amount it may invest in any one issuer.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. TEA and TRS use the effective weighted duration method to identify and manage interest rate risk. UT and ERS use the modified duration method.

Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by first multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Effective duration extends this analysis to incorporate an option adjusted measure of an instrument's sensitivity to changes in interest rates. Modified duration estimates the sensitivity of the fund's investments to changes in interest rates.

The investment policy of TEA mandates the average duration of the fixed income portfolio be consistent with the Lehman Bros. Aggregate Index's duration. The Lehman Bros. Aggregate Index duration as of Aug. 31, 2008, was 4.8 years. The maximum maturity for invested securities lending collateral is 397 days except for bank time deposits which is 60 days, bankers' acceptances, which is 45 days, reverse repurchase agreements, which is 180 days and floating rate securities, which is three years. The maximum weighted average maturity of the entire collateral portfolio must be 180 days. The maximum weighted average interest rate exposure of the entire collateral portfolio must be 60 days. TRS, UT and ERS do not have a formal investment policy with respect to interest rate risk.

TEA's investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2008, are as follows.

Investments Exposed to Interest Rate Risk

August 31, 2008

TEA Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
Asset Backed Securities	$ 34,163	4.19
Commercial Mortgage Backed Securities	359,336	5.37
Corporate Obligations	1,152,834	5.31
Non Agency Mortgage Backed Securities	242,350	5.56
Private Placements - Corporate	39,395	3.44
Private Placements - Government	25,841	6.82
U.S. Government Agency Mortgage Backed Securities	2,004,246	4.09
U.S. Government Agency Obligations	960,193	4.72
U.S. Treasury Securities	916,619	4.61
U.S. Treasury Strips	56,849	16.72
U.S. Treasury TIPS	61,514	0.85
Total Fixed Income	$ 5,853,340	4.75

The following provides information about TEA's interest rate risks and maturities associated with its invested securities lending collateral by investment type.

Invested Securities Lending Collateral Exposed to Interest Rate Risk

August 31, 2008 (Amounts in Thousands)

TEA Investment Type	Fair Value	Investment Maturities in Less Than One Year	Investment Maturities Greater Than One Year
Asset Backed Floating Rate Notes	$ 613,058	$ 408,906	$204,152
Bank Floating Rate Notes	999,492	593,216	406,276
Certificates of Deposit	27,002	27,002	
Commercial Paper	7,985	7,985	
Corporate Floating Rate Notes	295,420	204,042	91,378
Repurchase Agreements	1,135,587	1,135,587	
Time Deposits	355,000	355,000	
Total	$3,433,544	$2,731,738	$701,806

TRS' investments by investment type, fair value and the effective weighted duration rate as of Aug. 31, 2008, are as follows. The effective weighted duration rate is an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. It is calculated as the average percentage change in a bond's value (price plus accrued interest) under shifts of the Treasury curve +/-100 basis points. It incorporates the effect of embedded options for corporate bonds and changes in prepayments for mortgage backed securities (including pass-throughs, CMOs and ARMs). The effective weighted duration calculation excludes the High Yield Limited Partnerships, which are pooled instruments and not debt securities.

Investments Exposed to Interest Rate Risk

August 31, 2008

TRS Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
U.S. Government Obligations	$10,795,100	9.80
U.S. Government Agency Obligations	51,363	6.30
Asset and Mortgage Backed Obligations	2,347,811	6.45
Corporate Obligations	2,283,879	4.71
International Government Obligations	4,263,647	9.00
International Corporate Obligations	877,277	4.91
Total Interest Rate Risk Debt Securities	$20,619,077	8.47

ERS' investments by investment type, fair value and the modified duration rate as of Aug. 31, 2008, are as follows.

Investments Exposed to Interest Rate Risk

August 31, 2008

ERS Investment Type	Fair Value (Amounts in Thousands)		Modified Duration	
	Fiduciary Fund	Proprietary Fund	Fiduciary Fund	Proprietary Fund
U.S. Treasury Securities	$1,248,613	$106,895	6.04	6.99
U.S. Treasury TIPS	656,250		11.73	
U.S. Government Agency Obligations	3,127,437	129,962	4.69	2.68
Corporate Obligations	2,966,558	119,846	5.18	2.21
Corporate Asset and Mortgage Backed Securities	497,839	28,841	3.98	3.46
Cash and Cash Equivalents	337,962	419,078	0.01	0.05
Overall Interest Rate Risk Debt Securities	$8,834,659	$804,622	5.36	1.70

UT's investments by investment type, fair value and the modified duration rate as of Aug. 31, 2008, are as follows.

Investments Exposed to Interest Rate Risk

August 31, 2008

UT Investment Type	Fair Value (In Thousands)	Modified Duration
INVESTMENTS IN SECURITIES:		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	$ 134,107	5.23
U.S. Treasury Strips	11,628	3.09
U.S. Treasury Bills	30,468	0.07
U.S. Treasury Inflation Protected	548,857	8.56
U.S. Agency Asset Backed	103,822	4.00
Total U.S. Government Guaranteed	828,882	7.06
U.S. Government Non-Guaranteed:		
U.S. Agency	7,954	3.34
U.S. Agency Asset Backed	674,454	5.93
Total U.S. Government Non-Guaranteed	682,408	5.90
Total U.S. Government	1,511,290	6.54
Corporate Obligations:		
Domestic	820,444	5.03
Commercial Paper	44,472	0.10
Foreign	282,363	5.09
Total Corporate Obligations	1,147,279	4.86
Foreign Government and Provincial Obligations	543,447	7.76
Other Debt Securities	19,484	9.77
Total Debt Securities	562,931	7.83
Other Investment Funds – Debt	672,283	5.70
Fixed Income Money Market Funds	1,980,166	0.08
Certificates of Deposit	4,199	0.78
Total Investments in Securities	$5,878,148	4.06
DEPOSIT WITH BROKERS FOR DERIVATIVE CONTRACTS:		
U.S. Government Guaranteed:		
U.S. Treasury Bills	$ 62,644	0.17
Total U.S. Government Guaranteed	62,644	0.17
Cash	53,152	0.06
Total Deposit with Brokers for Derivative Contracts	$ 115,796	0.12

Investments with Fair Values Highly Sensitive to Interest Rate Changes

In accordance with the applicable investment policies, TEA, TRS, ERS and UT may invest in asset backed and mortgage backed obligations. Mortgage backed obligations are subject to early principal payment in a period of declining interest rates. The resultant reduction in expected cash flows will affect the fair value of these securities. Asset backed obligations are backed by home equity loans, auto loans, equipment loans and credit card receivables. Prepayments by the obligee of the underlying assets in periods of declining interest rates could reduce or eliminate the stream of income that would have been received. At Aug. 31, 2008, the fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TEA, TRS, ERS and UT was $6.6 billion.

Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Trust Company are permitted by stat-

ute. A reverse repurchase agreement consists of a sale of securities by the state with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested by the state in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate the agreement resulting in a matched position. With a matched position there is minimal market risk because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair value of the securities underlying reverse repurchase agreements. The amount of the loss would equal the difference between the fair value plus accrued interest of the underlying securities and the agreement price plus accrued interest. To minimize the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

The Treasury's aggregate amount of reverse repurchase agreement obligations at Aug. 31, 2008, was $146.8 million including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was $147.6 million. The credit exposure at fiscal year end was $843.5 thousand.

Securities Lending

TRS, TEA, ERS, UT, the Trust Company, the Texas A&M University System (A&M), the General Land Office/ Veterans Land Board (GLO/VLB) and the Texas Prepaid Higher Education Tuition Board (TPHETB) participate in securities lending programs as authorized by state statute. TRS, TEA, ERS and UT have established their own separately managed securities lending programs. A&M, GLO/ VLB and TPHETB participate in collateral investment pools that commingle the cash collateral of several entities. The Trust Company manages the investments in collateral investment pools for the Treasury, Texas Historical Commission, Office of Rural and Community Affairs and the University of North Texas System.

Under these programs, the governmental entities transfer securities to an independent broker or dealer in exchange for collateral in the form of cash, governmental securities or bank letters of credit. In addition, TEA may receive collateral in the form of other assets which it specifically agrees to with its lending agent and A&M may receive collateral in the form of fixed income securities and repurchase agreements. TRS, ERS, UT and GLO/ VLB receive collateral equal to 102 percent of the value of domestic securities lent and 105 percent for international securities. TEA receives collateral in an amount of 102 percent of the fair value plus accrued income for domestic corporate securities and 105 percent of the fair value plus accrued income for foreign securities; except in the case of foreign securities denominated and payable in U.S. Dollars, the required percentage is 102 percent. A&M receives collateral of 102 percent of the value of the securities lent. The Trust Company receives collateral of 102 percent of the value of U.S. securities lent plus any accrued interest and 105 percent of the value of non-U.S. government securities plus any accrued interest. TPHETB receives collateral of 102 percent of the value of domestic securities lent plus accrued interest and 105 percent plus accrued interest for foreign securities. At fiscal year end, a portion of TRS' collateral received was other than cash or governmental securities. TRS is working with State Street Bank and Trust Company to replace and secure appropriate collateral. There is a simultaneous agreement to return the collateral for the same securities in the future.

The state's securities custodians are the security lending agents. The securities lending contracts do not allow the state to pledge or sell collateral securities unless the borrower defaults. For TRS, TEA, ERS, UT, GLO/VLB and TPHETB, the lending agents are required to indemnify the state if the borrowers fail to return the securities. For the Trust Company and A&M, the lending agent is not liable with respect to any losses except to the extent that such losses result from the lending agent's negligence, failure to live up to its contractual responsibilities or willful misconduct.

For ERS, the relationship between the maturities of investments made with cash collateral generally matched the maturities of the loan agreements. For A&M, cash col-

lateral is invested in a portfolio with a liquidity target of 20 percent, but does not generally match the maturities of investments with the term maturities of the loan agreements. TRS, the Trust Company, GLO/VLB and TPHETB loans are terminable at will. UT manages its investments to maintain an average maturity and overnight liquidity. For TEA, maturities are defined by the lending agreement and the loans are terminable at will. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses and no recoveries of prior period losses during the year.

Due to illiquidity in the securities lending market, several securities lending cash collateral pools have experienced declines in the fair value of invested cash collateral. In previous fiscal years there were no material differences between the fair value of the invested cash collateral and the cash collateral liability. Differences between the fair value of the invested cash collateral and the cash collateral liability as of Aug. 31, 2008, have been recorded as part of the net increase/(decrease) in fair value of investments. Decreases in the fair value of invested cash collateral represent additional credit risk exposure to borrowers. There is no credit risk exposure to the borrower when the fair value of the invested cash collateral exceeds the cash collateral liability. The overall securities lending activity as of Aug. 31, 2008, is summarized as follows.

Securities Lending Activity Summary

August 31, 2008 (Amounts in Thousands)

Entity	Fair Value of Securities on Loan	Non-Cash Collateral*	Cash Collateral Liability (Obligation/ Securities Lending)	Fair Value of Invested Cash Collateral (Securities Lending Collateral)	Net Increase/ (Decrease) In Fair Value**
TRS	$21,787,861	$2,845,866	$ 19,699,519	$ 19,347,275	$(352,244)
TEA	3,421,244	108,425	3,458,196	3,433,544	(24,652)
ERS	6,735,875	589,301	6,375,193	6,340,579	(34,614)
UT	968,988	20,697	984,343	984,424	81
Trust Company	51,506	2,810	50,165	50,165	
A&M	180,227	479	184,823	184,823	
GLO/VLB	89,142		90,945	89,817	(1,128)
TPHETB	304,230	5,979	307,192	307,192	
Total	$33,539,073	$3,573,557	$ 31,150,376	$ 30,737,819	$(412,557)

* Non-cash collateral received for securities lending activities are not recorded as assets because the underlying investments remain under the control of the borrower, except in the event of default.

** The Trust Company, A&M and TPHETB did not experience any net change in fair value because the cash collateral pools they participated in were maintained at amortized cost as of Aug. 31, 2008.

Derivatives

Derivatives are financial instruments (securities or contracts) whose value is linked to or "derived" from changes in interest rates, currency rates and stock and commodity prices. Certain state agencies and colleges and universities were parties to various derivative financial instruments including derivative contracts, options and investments in commingled funds that are authorized to use derivatives and swaps.

At Aug. 31, 2008, the following derivatives were held and reported at fair value on the statement of net assets and the statement of fiduciary net assets.

Type	Held By
Forward Contracts	TRS, A&M and UT
Futures Contracts	TRS, ERS, TEA and UT
Written Options	UT
Index Funds, Hedge Funds and Commingled Funds	UT
Swaps	TRS and UT

Forward contracts are bought or sold when an international trade has been made. The contract is in the currency native to the security transactions for settlement date. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform.

Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes.

Written options are used to alter the market (systematic) exposure without trading the underlying cash market securities and to hedge and control risks so that the actual risk/return profile is more closely aligned with the target risk/return profile. If a call option expires, the state realizes a gain to the extent of the premium received. If a call option is exercised, the difference between the proceeds of the sale

plus the amount of the premium and the fair value of the security are realized as a gain or loss. If a call option is repurchased, the difference between the premium income received and the amount paid to close the option contract is realized as a gain or loss. If a put option is exercised, the premium reduces the cost basis of the securities purchased.

Index funds, hedge funds and commingled funds alter market exposure without trading the underlying cash market securities.

Swaps are entered into primarily to hedge and control interest rate risks.

Note 4

Short-Term Debt

On Aug. 21, 2007 (with an issue date of Sept. 4, 2007), $4.9 billion in the state of Texas Tax and Revenue Anticipation Notes, Series 2007, were sold to coordinate the cash flow of the state for the fiscal year ended Aug. 31, 2008. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the general revenue fund. The Series 2007 were repaid during fiscal 2008 and bore interest at 4.5 percent and were priced to yield 3.728 percent.

On Aug. 19, 2008, the Comptroller's office sold approximately $6.4 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2008, with an issue date of Aug. 28, 2008, and a maturity date of Aug. 28, 2009. The notes bear interest at 3 percent and were priced to yield 1.646 percent. They are not subject to redemption prior to maturity. On Aug. 19, 2008, good faith funds in the amount of $64 million were received. Short-term debt activity for the year ended Aug. 31, 2008, is as follows.

During fiscal 2008, the Texas Department of Transportation issued commercial paper under its short-term borrowing program. The commercial paper proceeds are being used to cover temporary funding short falls for capital expenditures.

Short-Term Debt

For the Fiscal Year Ended August 31, 2008
(Amounts in Thousands)

	Beginning Balance 09/01/07	Issued	Redeemed	Ending Balance 08/31/08
Tax and Revenue Anticipation Notes	$	$11,300,000	$4,900,000	$6,400,000
Commercial Paper	158,000	434,224	401,474	190,750
	$ 158,000	$11,734,224	$5,301,474	$6,590,750

Note 5

Long-Term Liabilities

The long-term liabilities activity for fiscal 2008 is shown in the table below.

Long-Term Liabilities Activity

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Beginning Balance 09/01/07	Additions	Reductions	Ending Balance 08/31/08	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES						
Claims and Judgments	$ 206,968	$ 24,272	$ 45,059	$ 186,181	$ 61,242	$ 124,939
Capital Lease Obligations	10,560	715	1,653	9,622	1,562	8,060
Employees' Compensable Leave	722,530	697,295	670,826	748,999	435,943	313,056
Notes and Loans Payable	215,700	145,000	21,110	339,590	27,261	312,329
General Obligation Bonds Payable	6,756,893	2,064,988	761,172	8,060,709	388,575	7,672,134
Revenue Bonds Payable	2,030,739	1,587,440	173,195	3,444,984	162,853	3,282,131
Governmental Activities Long-Term Liabilities	$ 9,943,390	$4,519,710	$1,673,015	$12,790,085	$1,077,436	$11,712,649
BUSINESS-TYPE ACTIVITIES						
Claims and Judgments	$ 163,840	$ 615,405	$ 624,454	$ 154,791	$ 95,634	$ 59,157
Capital Lease Obligations	13,579	3,612	2,898	14,293	2,667	11,626
Employees' Compensable Leave	580,183	165,542	127,030	618,695	316,050	302,645
Notes and Loans Payable	2,029,322	2,037,438	1,629,493	2,437,267	1,393,081	1,044,186
General Obligation Bonds Payable	2,775,467	249,822	317,526	2,707,763	114,340	2,593,423
Revenue Bonds Payable	12,304,358	2,374,719	1,309,106	13,369,971	1,487,144	11,882,827
Liabilities Payable From Restricted Assets	3,668,564	2,429,674	2,625,382	3,472,856	498,002	2,974,854
Business-Type Activities Long-Term Liabilities	$21,535,313	$7,876,212	$6,635,889	$22,775,636	$3,906,918	$18,868,718
COMPONENT UNITS						
Capital Lease Obligations	$ 150	$ 193	$ 178	$ 165	$ 93	$ 72
Employees' Compensable Leave	4,752	2,963	2,716	4,999	3,429	1,570
Notes and Loans Payable	168,018	200,500	226,860	141,658	38,344	103,314
Revenue Bonds Payable	376,322	57,426	20,714	413,034	16,858	396,176
Liabilities Payable From Restricted Assets	229,091	17,426	159,216	87,301		87,301
Component Units Long-Term Liabilities	$ 778,333	$ 278,508	$ 409,684	$ 647,157	$ 58,724	$ 588,433

Notes and loans payable consists of amounts used to purchase capital equipment. Other uses include the acquisition, construction and renovation of other capital assets, including the interim financing of higher education projects; software/database acquisition and development; refinancing of existing debt and the funding of agency specific missions such as economic development projects and pest eradication programs. Debt service requirements for notes and loans payable in the long-term liabilities are shown to the right and at the top of the following page.

General Obligation Bonds and Revenue Bonds are described in detail in Note 6.

Notes and Loans Payable Debt Service Requirements Governmental Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2009	$ 27,261	$ 14,502	$ 41,763
2010	26,913	14,102	41,015
2011	23,649	13,571	37,220
2012	21,426	12,464	33,890
2013	20,477	11,424	31,901
2014 - 2018	96,144	42,684	138,828
2019 - 2023	80,260	19,768	100,028
2024 - 2028	41,855	4,793	46,648
2029 - 2033	1,605	7	1,612
Total Requirements	$ 339,590	$ 133,315	$ 472,905

Notes and Loans Payable Debt Service Requirements Business-Type Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2009	$1,392,394	$ 14,884	$1,407,278
2010	6,387	25,391	31,778
2011	6,830	36,896	43,726
2012	6,807	38,211	45,018
2013	6,459	39,929	46,388
2014 - 2018	45,523	234,140	279,663
2019 - 2023	30,198	300,262	330,460
2024 - 2028	86,140	354,552	440,692
2029 - 2033	146,615	353,468	500,083
2034 - 2038	288,561	330,754	619,315
2039 - 2043	420,666	226,534	647,200
Total Requirements	2,436,580	1,955,021	4,391,601
Premium	687		687
Total Requirements	$2,437,267	$1,955,021	$4,392,288

Notes and Loans Payable Debt Service Requirements Component Units

(Amounts in Thousands)

Year	Principal	Interest	Total
2009	$ 38,344	$ 4,672	$ 43,016
2010	11,289	3,652	14,941
2011	18,803	3,571	22,374
2012	11,690	2,974	14,664
2013	15,176	2,526	17,702
2014 - 2018	45,576	3,303	48,879
2019 - 2023	179	222	401
2024 - 2028	601	219	820
Total Requirements	$ 141,658	$ 21,139	$ 162,797

Claims and judgments are payments on behalf of the state, its agencies and employees for various legal proceedings and claims. Tort claims are covered under the Texas Tort Claims Act. Numerous miscellaneous claims are covered under the Miscellaneous Claims Act for legal liabilities against the state for which no appropriation otherwise exists. Individual claims above $25,000 or numerous separate claims from the same individual or entity that in total exceed $25,000 must be approved by the Legislature before being paid.

Employees' compensable leave is the state's liability for all unused vacation and unpaid overtime accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination, usually from the same funding source(s) from which the employee's salary or wage compensation was paid.

Capital lease obligations are described in detail in Note 7.

Long-term liabilities that are associated with the acquisition of restricted assets or long-term liabilities that will be liquidated with restricted assets are classified as liabilities payable from restricted assets.

Note 6

Bonded Indebtedness

DESCRIPTION OF BOND ISSUES

The state of Texas has 495 bond issues outstanding as of Aug. 31, 2008. During fiscal 2008 the state paid $425.1 million from the general revenue fund for debt service.

Bonds Issued and Issues Outstanding

(Amounts in Thousands)

	Bond Issues Outstanding 8/31/08	Bonds Issued
GOVERNMENTAL ACTIVITIES		
General Obligation Bonds	62	$10,036,057
Revenue Bonds	31	4,190,587
Governmental Activities Bond Total	93	14,226,644
BUSINESS-TYPE ACTIVITIES		
General Obligation Bonds	90	3,826,596
Revenue Bonds	286	18,015,603
Business-Type Activities Bond Total	376	21,842,199
COMPONENT UNITS		
Revenue Bonds	26	501,682
Total Bonds	495	$36,570,525

Changes in Bonds Payable

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Bonds Outstanding 9/1/07	Bonds Issued	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/08	Due Within One Year
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	$ 6,756,893	$ 2,064,988	$ 279,952	$ 481,220	$ 8,060,709	$ 388,575
Revenue Bonds	2,030,739	1,587,440	112,250	60,945	3,444,984	162,853
Governmental Activities Bond Total	8,787,632	3,652,428	392,202	542,165	11,505,693	551,428
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	2,775,467	249,822	133,396	184,130	2,707,763	114,340
Revenue Bonds	12,304,358	2,374,719	578,219	730,887	13,369,971	1,487,144
Business-Type Activities Bond Total	15,079,825	2,624,541	711,615	915,017	16,077,734	1,601,484
COMPONENT UNITS						
Revenue Bonds	376,322	57,426	20,714		413,034	16,858
Total Bonds	$24,243,779	$ 6,334,395	$ 1,124,531	$ 1,457,182	$27,996,461	$ 2,169,770

Miscellaneous Bond Information

(Amounts in Thousands)

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Maturities First Year	Maturities Last Year	First Call Date
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	$10,036,057	2.00	8.00	1992	2045	07/01/04
Revenue Bonds	4,190,587	2.50	7.25	1991	2028	02/01/01
Governmental Activities Bond Total	14,226,644					
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	3,826,596	1.37	8.06	1995	2047	02/24/94
Revenue Bonds	18,015,603	1.50	15.00	1988	2047	02/01/88
Business-Type Activities Bond Total	21,842,199					
COMPONENT UNITS						
Revenue Bonds	501,682	3.50	7.10	1986	2041	10/08/86
Grand Total	$36,570,525					

Debt Service Requirements

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES

Year	General Obligation Bonds Principal	General Obligation Bonds Interest	General Obligation Bonds Total	Revenue Bonds Principal	Revenue Bonds Interest	Revenue Bonds Total
2009	$ 379,744	$ 360,730	$ 740,474	$ 156,490	$ 152,822	$ 309,312
2010	313,160	346,232	659,392	168,785	149,061	317,846
2011	326,070	330,585	656,655	161,750	141,965	303,715
2012	294,410	316,732	611,142	170,650	134,834	305,484
2013	304,175	302,056	606,231	172,015	127,401	299,416
2014 - 2018	1,150,070	1,351,636	2,501,706	841,190	521,252	1,362,442
2019 - 2023	950,570	1,125,489	2,076,059	907,070	313,827	1,220,897
2024 - 2028	1,167,305	874,339	2,041,644	768,065	81,104	849,169
2029 - 2033	1,453,945	568,346	2,022,291			0
2034 - 2038	1,558,300	184,502	1,742,802			0
2039 - 2043	-	6,120	6,120			0
2044 - 2048	45,000	2,448	47,448			0
	7,942,749 *	5,769,215	13,711,964	3,346,015 *	1,622,266	4,968,281
Accretion	(47,860)		(47,860)	(16,992)		(16,992)
Premium	165,820		165,820	115,961		115,961
Total	$8,060,709	$5,769,215	$13,829,924	$ 3,444,984	$1,622,266	$ 5,067,250

BUSINESS-TYPE ACTIVITIES

Year	General Obligation Bonds Principal	General Obligation Bonds Interest	General Obligation Bonds Total	Revenue Bonds Principal	Revenue Bonds Interest	Revenue Bonds Total
2009	$ 114,340	$ 95,840	$ 210,180	$ 1,475,848	$ 559,967	$ 2,035,815
2010	147,398	91,314	238,712	442,957	546,218	989,175
2011	140,109	85,754	225,863	430,828	526,021	956,849
2012	113,917	80,958	194,875	440,524	506,269	946,793
2013	116,687	76,830	193,517	468,551	485,700	954,251
2014 - 2018	634,306	316,174	950,480	2,563,996	2,074,800	4,638,796
2019 - 2023	561,265	201,647	762,912	2,413,761	1,495,618	3,909,379
2024 - 2028	367,475	115,202	482,677	1,951,373	1,031,235	2,982,608
2029 - 2033	364,945	49,760	414,705	1,723,026	700,937	2,423,963
2034 - 2038	127,780	12,686	140,466	1,529,993	440,827	1,970,820
2039 - 2043	19,060	3,955	23,015	1,008,890	186,207	1,195,097
2044 - 2048	5,200	683	5,883	99,060	8,469	107,529
	2,712,482 *	1,130,803	3,843,285	14,548,807 *	8,562,268	23,111,075
Accretion	(4,718)		(4,718)	(1,357,748)		(1,357,748)
Premium	(1)		(1)	257,438		257,438
Discount				(18,609)		(18,609)
Loss on Refunding				(59,917)		(59,917)
Total	$2,707,763	$1,130,803	$ 3,838,566	$13,369,971	$8,562,268	$21,932,239

COMPONENT UNITS

Year	Revenue Bonds Principal	Revenue Bonds Interest	Revenue Bonds Total
2009	$ 16,716	$ 12,696	$ 29,412
2010	8,958	17,473	26,431
2011	3,989	16,922	20,911
2012	4,247	16,705	20,952
2013	4,506	16,469	20,975
2014 - 2018	26,348	78,284	104,632
2019 - 2023	36,306	69,921	106,227
2024 - 2028	150,316	53,842	204,158
2029 - 2033	70,917	31,814	102,731
2034 - 2038	71,273	10,153	81,426
2039 - 2043	4,885	279	5,164
	398,461 *	324,558	723,019
Premium	14,573		14,573
Total	$ 413,034	$ 324,558	$ 737,592

* Increase/Decrease is due to accretion adjustment on deep discount bonds, premium, discount and/or loss on refunding.

General Obligation Bonds – General Comments

The Texas Constitution authorizes the state to issue several types of general obligation bonds. Each issue of general obligation bonds is designed to be self-supporting from a primary revenue source related to the program being financed, except for the general obligation bonds of the Texas Public Finance Authority, the Water Development Board and the Constitutional Appropriation Bonds.

The purpose and primary pledged revenue sources of each type of general obligation bond are summarized below.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds to finance the acquisition and development of state park sites. Park entrance fees and investment earnings are applied to debt service on the bonds.

The **Texas Public Finance Authority** (Authority) issues general obligation bonds to finance the acquisition, construction or renovation of buildings for the use of state agencies and institutions. The Authority is also authorized to issue general obligation bonds to assist local government economic development projects to enhance the value of military facilities. The bonds are payable from state appropriations.

The **Texas Water Development Board** issues bonds to provide financial assistance to political subdivisions for water development, water quality enhancement projects and flood control projects. Debt service payments are funded by principal and interest received on loans to political subdivisions, repayments of purchased water storage contracts and earnings on temporary investments.

The **General Land Office and Veterans Land Board** issues bonds to provide funds to loan to eligible Texas veterans for the purchase of land, housing or home improvements. Principal and interest payments on loans, plus investment earnings, are the primary source of repayment for bonds.

The **Texas Department of Transportation through the Texas Mobility Fund** issues bonds to pay part of the costs of constructing, reconstructing, acquiring and expanding state highways and providing participation by the state in the payment of part of the costs of constructing and providing certain publicly owned toll roads and other public transportation projects. Debt service is payable from balances in and revenues of the Mobility Fund, which include certain license plate fees, investment income, motor vehicle inspection fees, driver record information fees and driver license fees. Residual funding is from state appropriations.

Constitutional Appropriation Bonds are issued in support of the construction programs of colleges and universities not benefiting from the Permanent University Fund, which is dedicated to the University of Texas and Texas A&M University systems. Debt service payments on bonds issued are limited to the $131.3 million in General Revenue Funds available for debt service each year.

The **Economic Development and Tourism Office**, a division within the Office of the Governor, issues general obligation bonds to provide financial assistance to export businesses, to promote domestic business development, to provide loans to finance the commercialization of new and improved products and processes and to provide loans to defense-related communities for economic development projects. Debt service payments are funded primarily from the repayment of loans and the disposition of debt instruments.

General Obligation Bonds – Authorized But Unissued

The Texas Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of Aug. 31, 2008, the amounts of general obligation bonds, other than Constitutional Appropriation Bonds, that were authorized but unissued are listed in the table below.

General Obligation Bonds Authorized But Unissued

(Amounts in Thousands)

SELF-SUPPORTING	
Texas Agricultural Finance Authority Bonds	$ 25,000
Farm and Ranch Loan Bonds	475,000
Veterans Land and Housing Bonds	147,157
Water Development Bonds	1,974,238
College Student Loan Bonds	600,482
Texas Military Preparedness Commission	200,405
	3,422,282
NOT SELF-SUPPORTING	
Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	4,260,623
Water Development Bonds - Economically Distressed Areas Program	262,013
	4,687,476
Total General Obligation Bonds	$8,109,758

Revenue Bonds – General Comments

Each series of revenue bonds is backed by the pledged revenue sources and restricted funds specified in the bond resolution. Each series is designed to be self-supporting except for the following, which are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations.

- Adjutant General's Department Bonds
- Texas Public Finance Authority Bonds
- Texas Department of Criminal Justice Bonds
- Texas Parks and Wildlife Department Bonds

The purpose and primary pledged revenue sources of each type of revenue bond are summarized below.

The **Adjutant General's Department** assumed the **Texas Military Facilities Commission's** responsibilities on Sept. 1, 2007. This includes the issuance of bonds for the construction, expansion and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the Adjutant General's Department.

The **Texas Public Finance Authority** issues bonds to finance the acquisition of real property and the construction, equipping or renovation of buildings for the use of state agencies and institutions of higher education. The bonds are payable from specified pledged revenues, primarily occupant-agency rentals collected.

The **Texas Parks and Wildlife Department** (Department) issues bonds for infrastructure repairs and construction. The bonds are payable from rent payments made by the Department to the Texas Public Finance Authority that are funded from state appropriations.

The **General Land Office and Veterans Land Board** (Board) issues bonds to assist in the construction of skilled nursing care facilities for veterans and to make home mortgage loans to veterans. The bonds are limited and special revenue obligations of the Board payable solely from the income, revenues, receipts and collateral pledged under the related trust indentures.

The **Texas Department of Housing and Community Affairs** (Department) issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with low to moderate incomes. Loan payments provide the revenues for debt service payments. The Department has also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies to finance mortgage loans and carry out financial assistance programs.

The **Texas Water Development Board** issues bonds for the water pollution control revolving fund commonly referred to as the state revolving fund. The proceeds are used to provide financial assistance to political subdivisions for water quality enhancement purposes. Principal and interest from political subdivision bonds are pledged for debt service requirements of the bonds.

Permanent University Fund (Fund) Bonds are issued by the University of Texas and Texas A&M University systems to build, equip or buy buildings or other permanent improvements. The Texas Constitution limits each system's Fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of Fund

assets, excluding real estate. Revenue from investments of the Fund is pledged to secure the payment of interest and principal. The cost value of Fund assets at Aug. 31, 2008, excluding real estate, was $10.8 billion. A comparison between the legal debt limits and the actual bonds outstanding at that date is shown below.

Permanent University Fund Bonds

(Amounts in Thousands)

	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	$2,158,019	$ 918,980	$1,239,039
Texas A&M University System	1,079,009	382,630	696,379
Total	$3,237,028	$1,301,610	$1,935,418

Miscellaneous College and University Revenue Bonds are issued to provide funds to acquire, construct, improve, enlarge and equip property, buildings, structures or facilities. The revenue bonds issued by each institution's governing board are secured by the income of the respective institutions and are an obligation of the state of Texas.

The **Texas Small Business Industrial Development Corporation** (TSBIDC), a nonprofit corporation, came under the management of the Office of the Governor (Office) effective Sept. 1, 2003, based on Senate Bill 275. The Office is now the oversight agency for the TSBIDC, whose financial status is reported as a discretely presented component unit of the Office. The TSBIDC bond program is composed of revenue demand bonds secured by an amended irrevocable letter of credit (LOC) issued by Bank of America, N.A. (Bank of America) for $101.7 million. This instrument replaces the previous LOC issued by Kredietbank Bank. As of Aug. 31, 2008, no principal drawings have been made on the LOC. The Office does not have a take out agreement as part of this LOC or as a separate agreement. Bondholders may tender the bonds for repurchase every seven days. Any bonds so tendered will be purchased by proceeds of the remarketing of the bonds or, if not successfully marketed, from amounts drawn under the LOC.

The **Texas Water Resources Finance Authority**, a public authority created within the Texas Water Development Board (Board), issued bonds in order to purchase from the Board the majority of existing political subdivision bonds held. Principal and interest from political subdivision bonds are pledged for debt service requirements of the bonds.

The **Texas Department of Transportation** through the State Highway Fund issues bonds for certain State highway improvement projects. Debt service is payable from revenues of the State Highway Fund, which include dedicated registration fees, dedicated taxes, dedicated Federal revenues, amounts collected or received pursuant to other State Highway Fund Revenue Law and any interest or earnings from the investment of these funds.

The **Texas Department of Transportation Turnpike Authority** issued bonds to pay a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System located in the greater city of Austin metropolitan area in Travis and Williamson counties. The bond obligations are payable from and secured solely by a first lien on and pledge of the Trust Estate.

Demand Bonds

The Office of the Governor, the General Land Office, the Department of Housing and Community Affairs, the Department of Transportation, the University of Houston System and the University of Texas System had outstanding demand bonds at Aug. 31, 2008. Details are presented in the tables on the following pages.

A bond holder may tender any of these bonds for repurchase prior to maturity, usually every seven days. Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under the letter of credit, liquidity agreement or standby purchase agreement of the respective agency until such time as the remarketing is finalized. As of Aug. 31, 2008, there have been no draws on the letters of credit or other agreements. Subsequent to year end, draws were made.

Demand Bonds

(Amounts in Thousands)

	Number of Demand Bond Issues 8/31/08	Standby Purchase Agreement	Letter of Credit	Other	Bonds Redeemed	Principal Balance Outstanding 8/31/08
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds						
Office of the Governor	2			2 b	None	$ 45,000
Texas Department of Transportation	2	3 a			None	241,275
	4	3	0	2	None	286,275
Revenue Bonds						
Texas Department of Transportation	1	1 a			None	100,000
	1	1	0	0	None	100,000
Governmental Activities Total	5	4	0	2	None	$ 386,275
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds						
General Land Office	29	29 a			None	$1,140,155
General Land Office/Veterans Land Board	6	6 a			None	156,035
	35	35	0	0	None	1,296,190
Revenue Bonds						
University of Texas System	3			3 b	None	1,015,440
Texas Department of Housing and Community Affairs	7	7 a			None	469,303
University of Houston System	1			1 b	None	16,127
	11	7	0	4	None	1,500,870
Business-Type Activities Bond Total	46	42	0	4	None	$2,797,060
COMPONENT UNITS						
Revenue Bonds						
Office of the Governor	1		1 c		None	$ 99,335
Texas Department of Transportation	1	1 a			None	150,000
Component Units Total	2	1	1	0	None	$ 249,335

a See Demand Bonds - Standby Purchase Agreements table.

b In the event redeemed bonds are not remarketed, internal funds of the agency are available for redemption.

c In the event that redeemed bonds are not remarketed, a letter of credit with Bank of America will be used until remarketed.

Demand Bond – Standby Purchase Agreements

Counterparties	Secured Bond Issue Agreements	Annual Liquidity Fee	Agreement Termination Date
Comptroller of Public Accounts	3	0.0400%	08/31/09
DEPFA Bank plc	8	0.0750%	02/22/10
DEPFA Bank plc	5	0.0750%	05/10/09
DEPFA Bank plc	1	0.0750%	02/22/10
DEPFA Bank plc	1	0.0800%	04/08/12
DEPFA Bank plc	1	0.0900%	11/15/09
DEPFA Bank plc	1	0.0900%	06/05/12
DEPFA Bank plc	1	0.1000%	05/01/16
Landesbank Hessen-Thuringen Girozentrale	4	0.1500%	12/31/15
Dexia Credit Local	10	0.0650%	11/15/11
Dexia Credit Local	1	0.1000%	11/15/11
Dexia Credit Local	3	0.2750%	04/28/11
Dexia Credit Local	1	0.1225%	12/15/15
Dexia Credit Local	1	0.3150%	04/28/11
State Street Bank and Trust Company	3	0.1100%	11/17/10
State Street Bank and Trust Company	1	0.0500%	12/13/13
California Public Employees Retirement System	1	0.0500%	12/13/13
Banco Bilbao Vizcaya Argentaria, S.A.	1	0.0875%	11/07/16
Total	47		

Takeout agreements are used by the Department of Housing and Community Affairs and the Department of Transportation to provide an alternative debt instrument to replace any repurchased bonds that have not been remarketed within the prescribed time constraints. The Demand Bonds - Takeout Agreement Provisions table shown below provides the estimated impact of such an event.

Demand Bonds
Takeout Agreement Provisions

(Amounts in Thousands)

	Estimated Debt Service	Rate	Basis
Governmental Activities			
General Obligation Bonds			
Texas Department of Transportation			
Texas Mobility Fund Bonds			
Series 2005B	104,276 a	4.07%	Fed Funds Rate (prior 7 Yr. Ave.) + 1.25%
Series 2006B	166,640 b	8.32%	Bank Prime Rate (prior 3 Yr. Ave.) + 1%
Revenue Bonds			
Texas Department of Transportation			
State Highway Fund Revenue Bonds			
Series 2006B	115,533 b	9.32%	Bank Prime Rate (prior 3 Yr. Ave.) + 2%
	386,449		
Business Type Activities			
Revenue Bonds			
Texas Department of Housing and Community Affairs			
Single Family Bonds			
Series 2007A	167,521 c	5.00%	Bank Prime Rate (Nov. '08) + 1%
Series 2006H	42,750 c	5.00%	Bank Prime Rate (Nov. '08) + 1%
Series 2005A	116,203 c	6.00%	Bank Prime Rate (Nov. '08) + 2%
Series 2004D	42,875 c	6.00%	Bank Prime Rate (Nov. '08) + 2%
Series 2004B	64,925 c	6.00%	Bank Prime Rate (Nov. '08) + 2%
Series 2005C	8,568 c	5.00%	Bank Prime Rate (Nov. '08) + 1%
Series 2004 Jr. Lien	4,722 c	6.00%	Bank Prime Rate (Nov. '08) + 2%
	447,564		
Component Units			
Revenue Bonds			
Texas Department of Transportation			
Texas Turnpike Authority, Central Texas Turnpike System			
1st Tier Variable Rate Demand Bonds			
Series 2002B	202,689 d	5.51%	Fed Funds Rate (prior 13 Yr. Ave.) + 1.5%
	202,689		
Total	1,036,702		

a Replacement debt is subject to semi-annual payments over seven years starting the first day of the third month of that period.
b Replacement debt is subject to semi-annual payments over three years starting the first day of the second month of that period.
c Replacement debt is subject to semi-annual payments over seven years starting the first day of the third month of that period.
d Replacement debt is subject to quarterly payments over thirteen years starting the first day of the fourth month of that period.

Early Extinguishment of Debt

Entities that had early debt extinguishments in fiscal 2008 are as follows. The source of funds used for the extinguishments included loan repayments and other available funds.

Early Extinguished Debt Issues

(Amounts in Thousands)

BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
General Land Office	$ 8,460
Revenue Bonds	
Texas Workforce Commission	248,060
Texas Department of Housing and Community Affairs	89,807
Texas Southern University	3,090
University of Texas System	3,800
Business-Type Activities Total	353,217
Grand Total	$353,217

Refunding

During fiscal 2008, seven entities refunded bonds to lower interest rates or to restructure debt service requirements for cash management purposes.

Refunding Issues

(Amounts in Thousands)

	Types of Refunding	Par Value of Refunding Issue	Par Value Refunded	Cash Flow Difference Increase	Economic Gain
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Texas Higher Education Coordinating Board	Current Refunding	$ 72,600	$ 75,730	$ 2,010	$ 5,686
Texas Public Finance Authority	Current Refunding	381,655	405,490	30,518	27,381
		454,255	481,220	32,528	33,067
Revenue Bonds					
Texas Public Finance Authority	Current Refunding	60,910	60,945	2,578	2,203
Governmental Activities Total		515,165	542,165	35,106	35,270
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
General Land Office and Veterans Land Board	Current Refunding	54,160	54,160	5,378	2,510
Texas Water Development Board	Current Refunding	118,465	121,510	14,670	6,611
		172,625	175,670	20,048	9,121
Revenue Bonds					
Texas Department of Housing and Community Affairs	Current Refunding	14,000	14,000	(248)	(154)
Texas State University System	Current Refunding	18,250	18,540	846	845
University of Texas System	Current Refunding	34,925	34,715	1,873	1,583
University of Texas System	Advance Refunding	345,460	318,875	49,439	30,193
		412,635	386,130	51,910	32,467
Business-Type Activities Total		585,260	561,800	71,958	41,588
Grand Total		$1,100,425	$1,103,965	$107,064	$76,858

Defeased Bonds Outstanding

Texas has defeased various bond issues by placing funds in irrevocable trusts in the Texas Treasury Safekeeping Trust Company (Trust Company) and external financial institutions to provide for all future debt service payments on the old bonds. Funds placed in the Trust Company to defease $313.1 million in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements.

Pledged Future Revenues

GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, was implemented this year. The statement makes a basic distinction between sales of receivables and future revenues, on the one hand, and the pledging of receivables or future revenues to repay a borrowing (a collateralized borrowing), on the other. The table below provides the pledged future revenue information for the state's revenue bonds.

Defeased Bonds Outstanding

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	$ 49,515
Texas National Research Laboratory Commission	37,900
Texas Public Finance Authority	182,882
Texas Parks and Wildlife Department	8,250
Revenue Bonds	
Texas Public Finance Authority	138,550
Texas Parks and Wildlife Department	23,645
	440,742
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
General Land Office and Veterans Land Board	64,700
Texas Water Development Board	34,900
Revenue Bonds	
University of Texas System	1,734,212
Texas A&M University System	174,626
Texas Tech University System	125,135
Texas State University System	42,115
Texas Workforce Commission	84,640
University of Houston System	44,430
University of North Texas System	25,255
Texas Water Development Board	17,425
Midwestern State University	5,525
Stephen F. Austin State University	3,021
Texas Southern University	3,300
	2,359,284
Total	$2,800,026

Pledged Future Revenue

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Component Units
Pledged Revenue Required for Future Principal and Interest on Existing Revenue Bonds	$4,968,281	$ 23,111,075	$ 723,019
Term of Commitment Year Ending August 31,	2028	2047	2041
Percentage of Revenue Pledged	100%	100%	100%
Current Year Pledged Revenue	6,748,490	10,255,735	10,971
Current Year Principal and Interest Paid	230,453	979,153	8,700

Conduit Debt

The Texas State Affordable Housing Corporation (Corporation) is authorized to issue statewide 501(c)(3) tax-exempt multifamily mortgage revenue bonds under the Texas Government Code §2306.555. The 501(c)(3) tax-exempt multifamily mortgage revenue bond program provides long-term variable or fixed rate financing to non-profit borrower/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. The Corporation may finance single developments or pools of properties located throughout the state of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income. The Corporation finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the Corporation, the state nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements.

As of Aug. 31, 2008, there were 22 series of multifamily housing revenue bonds outstanding with an aggregate $329 million principal amount payable.

DERIVATIVES

During fiscal 2008 the Veterans Land Board (VLB), the Texas Department of Housing and Community Affairs (the Department), the Texas Department of Transportation and the University of Texas System (UT) have reported derivatives.

Pay-Fixed, Receive-Variable Interest Rate Swaps (Veterans Land Board)

Objective of the Swaps: The Veterans Land Board is currently a party to 43 pay-fixed, receive-variable interest rate swaps that are associated with 46 variable-rate bond issues. The combination of swaps and variable-rate bonds creates synthetic fixed-rate debt. The use of synthetic fixed-rate debt has historically lowered the VLB's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed-rate bonds. Several of the swaps contain embedded barrier options that provide for the VLB to be "knocked out" of the swaps by the respective counterparties upon the breach of a certain predetermined barrier. In each of these cases, the VLB was paid an up-front option premium by the respective counterparties. With regard to the swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000, the knock-outs are permanent and are optional at the discretion of the counterparty. In the remainder of the swaps with embedded barrier options, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the barrier was breached.

Terms, Fair Values and Credit Ratings: The terms, fair values and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of Aug. 31, 2008, are shown in the tables on the following pages. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Pay-Fixed Receive-Variable Interest Rate Swaps

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Fixed-Rate Paid	Variable-Rate Received	Knock-out Barrier
GENERAL LAND OFFICE – VETERANS LAND BOARD					
Vet Hsg Ref Bds Ser '95	$ 57,385	11/29/1995	5.5200%	Actual Bond Rate	N/A
Vet Land Ref Bds Ser '99A	28,835	06/01/1999	5.1120%	68% of 6M LIBOR**	N/A
Vet Land Tax Ref Bds Ser '99B	13,955	12/01/1999	5.1250%	100% of 6M LIBOR	1M LIBOR >= 6.50%
Vet Land Tax Ref Bds Ser 2000	39,960	12/01/2000	6.1060%	100% of 6M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2001A-2	20,000	03/22/2001	4.3000%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2001C-2	25,000	12/18/2001	4.3650%	68% of 1M LIBOR	N/A
Vet Land Bds Ser 2002	18,220	02/21/2002	4.1400%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2002A-2	26,380	07/10/2002	3.8725%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2002	27,685	12/01/2002	4.9350%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund I Tax Ref Bds Ser 2002B	19,780	12/01/2002	4.9100%	100% of 6M LIBOR	6M LIBOR > 7.00%
Vet Hsg Fund II Bds Ser 2003A	40,755	03/04/2003	3.3040%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2003B	41,980	10/22/2003	3.4030%	64.5% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2003	25,535	12/01/2003	5.1230%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund I Tax Ref Bds Ser 2003	47,865	12/01/2003	5.1900%	100% of 6M LIBOR	6M LIBOR > 7.00%
Vet Hsg Fund II Bds Ser 2004A	42,280	04/07/2004	3.3130%	68% of 1M LIBOR	N/A
Vet Hsg Fund I Tax Ref Bds Ser 2004	16,535	06/01/2004	5.4500%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2004B	45,105	09/15/2004	3.6800%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2004	23,245	12/01/2004	5.4550%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D,E	38,130	12/01/2004	5.3480%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2005A	44,770	02/24/2005	3.2790%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2005B	45,480	08/09/2005	3.0870%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2005	21,775	12/01/2005	6.5170%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C/D	24,055	12/01/2005	5.1450%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA***/LIBOR Ratio > 74%
Vet Hsg Fund I Tax Ref Bds Ser 2005C	18,030	12/01/2005	4.9290%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%
Vet Hsg Fund I Tax Ref Bds Ser 2005C	3,365	12/01/2005	4.3300%	100% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2006A	46,740	06/01/2006	3.5170%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2006A	29,680	06/01/2006	6.5400%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006C	21,375	06/01/2006	5.7900%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006B	38,570	06/01/2006	5.8300%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Land Tax Ref Bds Ser 2006B	22,990	06/01/2006	4.6100%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2006D	48,170	09/20/2006	3.6890%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2006C	38,800	12/01/2006	6.5130%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006E	39,560	12/01/2006	5.4610%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%
Vet Hsg Fund II Tax Ref Bds Ser 2007	51,615	12/01/2007	4.6580%	100% of 1M LIBOR	1M LIBOR >= 7.00%; SIFMA/5Y ISDA CMS >71%
Vet Hsg Fund II Bds Ser 2007A	48,700	02/22/2007	3.6450%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2007B	49,620	06/26/2007	3.7120%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Tax Ref Bds Ser 2008A	50,000	03/26/2008	3.1890%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Tax Ref Bds Ser 2008B	50,000	09/11/2008	3.2250%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Tax Ref Bds Ser 2009	16,950	12/01/2009	6.2200%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2009A	65,845	12/01/2009	5.4525%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2010A	66,720	06/01/2010	5.4010%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%
Vet Land Tax Ref Bds Ser 2010	16,480	12/01/2010	5.2090%	100% of 1M LIBOR	1M LIBOR >= 7.00%; 6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%
Vet Homes Rev Ref Bds, Ser 2012	21,795	08/01/2012	3.7600%	68% of 1M LIBOR	1M LIBOR >= 7.00%
Subtotal General Land Office – Veterans Land Board	1,479,715				

Continued on the following page

Pay-Fixed
Receive-Variable Interest Rate Swaps (continued)

(Amounts in Thousands)

Associated Bond Issue	Knock-out Type	Knock-out Period	Up-Front Knock-out Premium Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings *
GENERAL LAND OFFICE – VETERANS LAND BOARD						
Vet Hsg Ref Bds Ser '95	N/A	N/A	N/A	$ (7,578)	12/01/2016	A-/A2
Vet Land Ref Bds Ser '99A	N/A	N/A	N/A	(3,491)	12/01/2018	A-/A2
Vet Land Tax Ref Bds Ser '99B	Optional	Permanent	740	(332)	12/01/2009	AAA/Aaa
Vet Land Tax Ref Bds Ser 2000	Optional	Permanent	2,700	(5,579)	12/01/2020	AAA/Aaa
Vet Hsg Fund II Bds Ser 2001A-2	N/A	N/A	N/A	(2,784)	12/01/2029	AA-/Aa1
Vet Hsg Fund II Bds Ser 2001C-2	N/A	N/A	N/A	(4,179)	12/01/2033	AAA/Aaa
Vet Land Bds Ser 2002	N/A	N/A	N/A	(2,098)	12/01/2032	A+/A1
Vet Hsg Fund II Bds Ser 2002A-2	N/A	N/A	N/A	(2,467)	06/01/2033	AAA/Aaa
Vet Land Tax Ref Bds Ser 2002	Mandatory	Periodic	2,785	(2,017)	12/01/2021	A+/A1
Vet Hsg Fund I Tax Ref Bds Ser 2002B	Mandatory	Periodic	2,165	(1,425)	06/01/2023	AAA/Aaa
Vet Hsg Fund II Bds Ser 2003A	N/A	N/A	N/A	(1,228)	06/01/2034	AA/Aaa
Vet Hsg Fund II Bds Ser 2003B	N/A	N/A	N/A	(1,712)	06/01/2034	AAA/Aaa
Vet Land Tax Ref Bds Ser 2003	Mandatory	Periodic	1,896	(2,268)	12/01/2023	AA/Aaa
Vet Hsg Fund I Tax Ref Bds Ser 2003	Mandatory	Periodic	4,470	(4,108)	06/01/2021	AAA/Aaa
Vet Hsg Fund II Bds Ser 2004A	N/A	N/A	N/A	(1,276)	12/01/2034	AAA/Aaa
Vet Hsg Fund I Tax Ref Bds Ser 2004	Mandatory	Periodic	1,442	(2,140)	12/01/2024	AAA/Aaa
Vet Hsg Fund II Bds Ser 2004B	N/A	N/A	N/A	(2,798)	12/01/2034	AAA/Aaa
Vet Land Tax Ref Bds Ser 2004	Mandatory	Periodic	2,075	(2,627)	12/01/2024	A+/A1
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D,E	Mandatory	Periodic	2,594	(3,853)	06/01/2020	AA-/Aaa
Vet Hsg Fund II Bds Ser 2005A	N/A	N/A	N/A	(1,215)	06/01/2035	AAA/Aaa
Vet Hsg Fund II Bds Ser 2005B	N/A	N/A	N/A	(493)	06/01/2036	AAA/Aaa
Vet Land Tax Ref Bds Ser 2005	Mandatory	Periodic	1,542	(4,491)	12/01/2026	AAA/Aaa
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C/D	Mandatory	Periodic	1,367	(3,285)	06/01/2026	AA/Aaa
			566			
Vet Hsg Fund I Tax Ref Bds Ser 2005C	Mandatory	Periodic	484	(1,728)	12/01/2023	AA-/Aaa
			267			
Vet Hsg Fund I Tax Ref Bds Ser 2005C	N/A	N/A	N/A	(55)	12/01/2009	AA-/Aaa
Vet Hsg Fund II Bds Ser 2006A	N/A	N/A	N/A	(2,018)	12/01/2036	AAA/Aaa
Vet Land Tax Ref Bds Ser 2006A	Mandatory	Periodic	1,931	(6,164)	12/01/2027	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2006C	Mandatory	Periodic	1,493	(3,165)	12/01/2027	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2006B	Mandatory	Periodic	1,992	(6,861)	12/01/2026	AA-/Aaa
Vet Land Tax Ref Bds Ser 2006B	Mandatory	Periodic	886	(1,190)	12/01/2026	AAA/Aaa
Vet Hsg Fund II Bds Ser 2006D	N/A	N/A	N/A	(2,871)	12/01/2036	AA-/Aa2
Vet Land Tax Ref Bds Ser 2006C	Mandatory	Periodic	2,725	(8,185)	12/01/2027	AA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2006E	Mandatory	Periodic	2,652	(6,922)	12/01/2026	AA/Aaa
			1,018			
Vet Hsg Fund II Tax Ref Bds Ser 2007	Mandatory	Periodic	935	(4,857)	06/01/2029	AA/Aaa
			1,020			
Vet Hsg Fund II Bds Ser 2007A	N/A	N/A	N/A	(2,966)	06/01/2037	AAA/Aaa
Vet Hsg Fund II Bds Ser 2007B	N/A	N/A	N/A	(3,391)	06/01/2038	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2008A	N/A	N/A	N/A	(698)	06/01/2037	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2008B	N/A	N/A	N/A	(882)	06/01/2038	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2009	Mandatory	Periodic	612	(1,862)	12/01/2021	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2009A	Mandatory	Periodic	2,740	(6,969)	06/01/2031	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2010A	Mandatory	Periodic	2,355	(9,181)	12/01/2031	AA/Aaa
			1,427			
Vet Land Tax Ref Bds Ser 2010	Mandatory	Periodic	466	(1,781)	12/01/2030	AA/Aaa
			208			
Vet Homes Rev Ref Bds, Ser 2012	Mandatory	Periodic	579	(1,566)	08/01/2035	AAA/Aaa
Subtotal General Land Office – Veterans Land Board			48,132	(136,756)		

Continued on the following page

Pay-Fixed
Receive-Variable Interest Rate Swaps (continued)

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Fixed-Rate Paid	Variable-Rate Received	Knock-out Barrier
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS					
2004B Single Family	53,000	09/01/2004	3.8430%	63% of LIBOR + .30%	N/A
2004D Single Family	35,000	01/01/2005	3.6125%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	N/A
2005A Single Family	94,860	08/01/2005	3.9900%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	N/A
2006H Single Family	36,000	11/15/2006	3.8570%	63% of LIBOR + .30%	N/A
2007A Single Family	141,070	06/05/2007	4.0130%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR	N/A
Subtotal Tx. Dept. of Housing and Comm Affairs	359,930				
UNIVERSITY OF TEXAS SYSTEM					
Rev Fin Sys Ref Bds Ser 2001A	19,715	08/15/2001	4.6330%	67% of 1M LIBOR	N/A
Rev Fin Sys Ref Bds Ser 2007B	345,460	12/20/2007	3.8050%	100% of SIFMA	N/A
Rev Fin Sys Ref Bds Ser 2008	310,000	03/18/2008	3.9000%	100% of SIFMA	N/A
Rev Fin Sys Ref Bds Ser 2008	375,485	03/18/2008	3.6140%	100% of SIFMA	N/A
Subtotal University of Texas System	1,050,660				
Total	$2,890,305				

* Standard and Poor's, Moody's Investor Service and Fitch Ratings, LTD.
** London Interbank Offered Rate (LIBOR).
*** Securities Industry and Financial Markets Association Index (SIMFA) rate.

Concluded on the following page

Pay-Fixed Receive-Variable Interest Rate Swaps (concluded)

(Amounts in Thousands)

Associated Bond Issue	Knock-out Type	Knock-out Period	Up-Front Knock-out Premium Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings *
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS						
2004B Single Family	N/A	N/A	N/A	(2,511)	09/01/2034	AA-/Aa2/AA+
2004D Single Family	N/A	N/A	N/A	(1,344)	03/01/2035	A/NR/AA-
2005A Single Family	N/A	N/A	N/A	(3,327)	09/01/2036	AAA/Aaa/NR
2006H Single Family	N/A	N/A	N/A	(1,829)	09/01/2025	AA-/Aa2/AA+
2007A Single Family	N/A	N/A	N/A	(4,927)	09/01/2038	AAA/Aaa/NR
Subtotal Tx. Dept. of Housing and Comm Affairs			0	(13,938)		
UNIVERSITY OF TEXAS SYSTEM						
Rev Fin Sys Ref Bds Ser 2001A	N/A	N/A	N/A	(1,231)	08/15/2013	AA/Aaa
Rev Fin Sys Ref Bds Ser 2007B	N/A	N/A	N/A	(7,315)	08/01/2034	50% AA/Aaa 50% AA-/Aa2
Rev Fin Sys Ref Bds Ser 2008	N/A	N/A	N/A	(10,524)	08/01/2036	50% AA/Aaa 50% A+/A1
Rev Fin Sys Ref Bds Ser 2008	N/A	N/A	N/A	(2,965)	08/01/2039	AA/Aaa
Subtotal University of Texas System			0	(22,035)		
Total			$48,132	$(172,729)		

Pay-Variable, Receive-Fixed Interest Rate Swaps (Veterans Land Board)

Objective of the Swaps: The VLB is currently a party to one pay-variable, receive-fixed interest rate swap that is associated with a taxable variable-rate bond issue. The swap was overlaid on an existing pay-fixed, receive-variable swap and effectively results in unhedged variable-rate bonds with an expected borrowing cost significantly below market over the life of the swap.

Terms, Fair Values and Credit Ratings: The terms, fair values and counterparty credit ratings related to the outstanding fixed-to-variable basis swaps as of Aug. 31, 2008, are shown in the table below. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Pay-Variable Receive-Fixed Interest Rate Swaps

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Variable-Rate Paid	Fixed-Rate Received	Knock-out Barrier
GENERAL LAND OFFICE – VETERANS LAND BOARD					
Vet Land Tax Ref Bds Ser 2006B	$22,990	06/01/2006	100% of 6M LIBOR	4.6100%	6M LIBOR >= 8.00%
Total	$22,990				

Associated Bond Issue	Knock-out Type	Knock-out Period	Up-Front Knock-out Premium Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings
GENERAL LAND OFFICE – VETERANS LAND BOARD						
Vet Land Tax Ref Bds Ser 2006B	Mandatory	Periodic	674	$ 978	12/01/2026	AAA/Aaa
Total			$674	$ 978		

Pay-Variable, Receive-Variable Interest Rate Swaps (Veterans Land Board)

Objective of the Swaps: The VLB is currently a party to four pay-variable, receive-variable interest rate swaps that are associated with three taxable variable-rate bond issues. These swaps are London Interbank Offered Rate (LIBOR) - to - Securities Industry Financial Markets Association rate (SIFMA) basis swaps and effectively convert the variable rate on the associated variable-rate bond issues from a LIBOR (taxable) based rate to a SIFMA (tax-exempt) based rate. The swaps are expected to generate an effective lower borrowing cost to the VLB over the life of the swaps.

Terms, Fair Values and Credit Ratings: The terms, fair values and counterparty credit ratings related to the outstanding variable-to-variable basis swaps as of Aug. 31, 2008, are shown in the table below. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Fair Value Methodology and Risk Exposure of Swap Transactions (Veterans Land Board)

Fair Value: The fair values of the swaps were estimated using the zero-coupon method. Using observable market information for Treasury bonds and LIBOR spreads, a smoothed LIBOR swap yield curve is constructed. From this swap yield curve, the path of future expected floating LIBOR interest rates is determined for a specific swap transaction. The path of the floating payments is then averaged together to produce a single fixed swap rate for the same time horizon as the swap being valued. The difference between this calculated fixed swap rate and the actual fixed swap rate on the transaction is then multiplied by the applicable outstanding notional amount at each future payment date to generate a series of payments. These payments are then discounted back to the valuation date using hypothetical zero-coupon bond rates derived from the LIBOR swap yield curve. The sum of these discounted payments produces the fair value of the swap.

Pay-Variable Receive-Variable Interest Rate Swaps

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Variable-Rate Paid	Variable-Rate Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings *
GENERAL LAND OFFICE – VETERANS LAND BOARD							
Vet Hsg Fund II Tax Bds Ser '97B-2	$ 25,000	09/27/2002	132.60% of SIFMA	100% of 3M LIBOR	$ 163	12/01/2010	AA/Aaa
Vet Hsg Fund II Tax Bds Ser '99A-2	90,000	08/05/2002	134.40% of SIFMA	100% of 1M LIBOR	156	09/01/2011	AAA/Aaa
Vet Hsg Fund II Tax Bds Ser '99A-2	60,000	08/05/2002	134.40% of SIFMA	100% of 1M LIBOR	137	09/01/2011	AAA/Aaa
Vet Land Tax Bds Ser 2000A/2002A	36,580	08/05/2002	131.25% of SIFMA	100% of 1M LIBOR	(239)	12/01/2032	A+/A1
Subtotal General Land Office – Veterans Land Board	211,580				217		
TEXAS DEPARTMENT OF TRANSPORTATION							
Mobility Fund GO Bds Ser 2006A	400,000	09/01/2007	100% of SIFMA	69.42% 10Y USD-ISDA	4,081	09/01/2027	50% AA-/Aa2/AA- 25% AAA/Aaa/NR 25% A+/A1/AA-
Subtotal Texas Department of Transportation	400,000				4,081		
Total	$611,580				$4,298		

* Standard and Poor's, Moody's Investor Service and Fitch Ratings, LTD.

For swaps with embedded options, an additional calculation similar to that described above is conducted to determine the value of the options. Using the approach described above, a swap rate is derived for each potential exercise date of each option. Market-derived data for interest rate volatility is then used to determine a probabilistic range of potential swap rates. For each potential swap rate, a value is determined for the option. These values are then weighted by their probabilities and discounted back to the valuation date using hypothetical zero-coupon bond rates as described above. The sum of the present value of the values for each exercise date produces the fair value of the option.

Credit Risk: The VLB mitigates the credit risk associated with its swaps by entering into transactions with highly-rated counterparties. As shown in the tables on the previous page, the credit ratings of the VLB's counterparties range from AAA to A- by Standard & Poor's (S&P) and Aaa to A2 by Moody's Investors Service (Moody's).

The VLB also mitigates its concentration of credit risk by diversifying its swap portfolio across several different counterparties. The VLB's 48 currently outstanding swaps are spread among nine different counterparties with no more than 26 percent of the total notional amount of swaps outstanding being associated with any single counterparty.

The VLB's swap agreements also contain collateralization provisions that require counterparties to post collateral in the full amount of the fair value of the swap if the counterparty's credit rating is at or below A+ by S&P or A1 by Moody's. Only U.S. Government obligations are acceptable forms of collateral. Posted collateral may be held either by the VLB itself or by a third party custodian that is rated at least BBB+ by S&P or Baa1 by Moody's.

Basis Risk: The VLB is exposed to basis risk to the extent that the interest payments on its variable-rate bonds do not match the variable-rate payments received on the associated swaps. The VLB mitigates this risk by (a) matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable-rate bond issue and (b) selecting an index for the variable-rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable-rate bonds over the life of each bond issue.

Termination Risk: The VLB or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. The VLB also has the right to terminate any of the swaps at any time without cause. In addition, the swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to terminate the swap under certain conditions. If any of the swaps are terminated, the associated variable-rate bonds would no longer have a synthetic fixed rate and the VLB would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on the VLB's balance sheet. If, at the time of termination for a reason other than the exercise of a termination option held by a counterparty, a swap has a negative fair value, the VLB would owe the respective counterparty a termination payment equal to the swap's fair value.

Rollover Risk: The swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to terminate the swap under certain conditions at any time.

Interest Rate Swaps Subject to Rollover

Associated Bond Issue	Maturity Date of Bonds	Option Exercise Date	Swap Termination Date
GENERAL LAND OFFICE – VETERANS LAND BOARD			
Vet Land Tax Ref Bds Ser '99B	12/01/09	04/29/02	12/01/09
Vet Land Tax Ref Bds Ser 2000	12/01/20	04/29/02	12/01/20
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS			
2004 Single Family Series B	09/01/34	03/01/14	09/01/34
2004 Single Family Series D	03/01/35	09/01/14	03/01/35
2005 Single Family Series A	09/01/36	Anytime with 10 day notice	09/01/36
2006 Single Family Series H	09/01/37	03/01/16	09/01/25
2007 Single Family Series A	09/01/38	Anytime with 10 day notice	09/01/38
TEXAS DEPARTMENT OF TRANSPORTATION			
Mobility Fund GO Bds Ser 2006A	04/01/35	N/A	09/01/27

If either of these swaps is terminated through the counterparty's exercise of its option, the associated variable-rate bonds would no longer have a synthetic fixed rate and the VLB would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on the VLB's balance sheet.

Bonds that are exposed to such rollover risk are shown in the table on the previous page.

Swap Payments and Associated Debt: Using rates as of Aug. 31, 2008, the estimated debt service requirements of the VLB's variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown in the tables below: "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments" and "Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments." As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2009	$ 67,250	$ 52,063	$ 57,277	$ 176,590
2010	80,790	50,625	55,728	187,143
2011	73,335	49,026	53,982	176,343
2012	79,755	47,566	52,321	179,642
2013	85,455	45,989	50,516	181,960
2014 - 2018	489,720	201,353	220,705	911,778
2019 - 2023	507,660	147,241	162,904	817,805
2024 - 2028	541,675	93,647	103,800	739,122
2029 - 2033	468,520	47,050	51,742	567,312
2034 - 2038	249,870	12,408	13,156	275,434
2039 - 2043	9,930	163	171	10,264
Total	$2,653,960	$ 747,131	$ 822,302	$4,223,393

Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2009	$ 700	$ 5,729	$ (137)	$ 6,292
2010	745	5,710	(137)	6,318
2011	790	5,691	(90)	6,391
2012	845	5,670	(34)	6,481
2013	890	5,648	(23)	6,515
2014 - 2018	5,370	27,856	(106)	33,120
2019 - 2023	12,160	26,960	(84)	39,036
2024 - 2028	24,625	24,452	(54)	49,023
2029 - 2033	165,455	6,900	(16)	172,339
2034 - 2038				
Total	$ 211,580	$ 114,616	$ (681)	$ 325,515

Pay-Variable, Receive-Variable Interest Rate Swaps (Texas Department of Transportation)

Objective of the Swaps: The Texas Department of Transportation's Texas Transportation Commission (Commission) is currently a party to three pay-variable, receive-variable Constant Maturity Swaps (CMS) associated with the Commission's State of Texas General Obligation Mobility Fund Series 2006A fixed rate bonds. These swaps exchange SIFMA rates for LIBOR rates. The swaps are expected to generate an effective lower borrowing cost to the Commission over the life of the swaps through the assumption of yield curve risk (the difference between short-term and long-term rates) and tax risk (the spread between tax-exempt rates and taxable rates).

Terms, Fair Values and Credit Ratings: The terms, fair values and counterparty credit ratings related to the outstanding variable-to-variable basis swaps as of Aug. 31, 2008, are shown on the following page. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Fixed-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Fixed-Rate Bonds Principal	Fixed-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2009	$ 375	$ 49,795	$ (5,060)	$ 45,110
2010	1,325	49,779	(5,060)	46,044
2011	2,275	49,727	(5,060)	46,942
2012	3,215	49,635	(5,060)	47,790
2013	4,185	49,507	(5,060)	48,632
2014 - 2018	39,500	244,153	(25,300)	258,353
2019 - 2023	124,510	227,491	(25,300)	326,701
2024 - 2028	252,315	184,777	(20,662)	416,430
2029 - 2033	418,080	109,458		527,538
2034 - 2038	194,300	12,622		206,922
Total	$1,040,080	$1,026,944	$ (96,562)	$1,970,462

Risk Exposure of Swap Transactions (Texas Department of Transportation)

Credit Risk: The Commission mitigates the credit risk associated with its swaps by entering into transactions with highly-rated counterparties. The credit ratings of the Commission's counterparties range from AAA to A+ by S&P and Aaa to A1 by Moody's.

The Commission also mitigates its concentration of credit risk by diversifying its swap portfolio across several different counterparties. The Commission's three currently outstanding swaps are spread among three different counterparties, with no more than 50 percent of the total notional amount of swaps outstanding being associated with any single counterparty.

The Commission's swap agreements also contain collateralization provisions that require counterparties to post collateral in the full amount of the fair value of the swap if the counterparty's credit rating is downgraded. Only cash in the form of U.S. Dollars or U.S. Government obligations are acceptable forms of collateral. Posted collateral may be held either by the Commission or its designated third party custodian.

Basis Risk: The Commission is exposed to basis risk to the extent that the interest payments on its variable-rate bonds do not match the variable-rate payments received on the associated swaps. The Commission mitigates this risk by (a) matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable-rate bond issue, (b) selecting an index for the variable-rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable-rate bonds over the life of each bond issue and (c) limiting the portion of the total portfolio that can be exposed to this risk at a given time.

Termination Risk: The Commission or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. The Commission also has the right to terminate any of the swaps at any time without cause. The Commission mitigates termination risk by maintaining a strong financial standing and by maintaining sufficient reserves to cover all or part of a termination payment that might materialize.

Rollover Risk: The swaps terminate on Sept. 1, 2027. Final maturity of the associated debt is April 1, 2035. The Commission accepted the rollover risk for the period beyond Sept. 1, 2027, because extending the term of the swap agreements to match the final maturity of the associated debt provided only marginal projected benefit.

Swap Payments and Associated Debt: Using rates as of Aug. 31, 2008, the estimated debt service requirements of the Commission's fixed-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are included in the table above: "Pay-Variable, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Fixed-Rate Debt Outstanding and Net Swap Payments." As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

Market-Access Risk: Market-access risk is the risk that an entity will not be able to enter credit markets or that credit will become more costly. This swap does not present market-access risk because the transaction does not require access to the credit market.

Pay-Fixed, Receive-Variable Interest Rate Swaps (Texas Department of Housing and Community Affairs)

Objective of the Swaps: The Department is a party to five pay-fixed, receive-variable interest rate swap agreements with three rated counterparties, UBS AG, Goldman Sachs Capital Markets, L.P. (Goldman) and Bear Stearns Financial Products, Inc. The objective of the swaps is to reduce interest rate risk of certain variable rate demand bonds. Under the terms of the agreements, the Department makes periodic fixed interest rate payments in exchange for receiving variable rate payments comparable to the rates payable on the variable rate demand bonds. The swap notional amounts amortize in accordance with the scheduled and/or anticipated reductions in the related variable rate demand bond liability. The Department is potentially exposed to loss in the event of nonperformance by the counterparties under the swap agreements. Termination of the swap agreements may result in the Department making or receiving termination payments. Each swap agreement includes optional early termination provisions granting the Department the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date.

Terms, Fair Values and Credit Ratings: The terms, fair values and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of Aug. 31, 2008, are shown in the table titled "Pay-Fixed, Receive-Variable Interest Rate Swaps." The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Credit Risk: As of Aug. 31, 2008, the Department is not exposed to credit risk on any of its outstanding swaps. The Department has entered into these transactions with highly-rated counterparties to mitigate credit risk. The swap portfolio is spread among three counterparties. Collateral agreements and insurance policy requirements contained in the swap agreements further mitigate credit risk.

Basis Risk: The Department's variable-rate bond coupon payments are equivalent to the SIFMA rate. Payments received on these swaps are a function of LIBOR. As these rates converge, basis risk exposure increases.

Rollover Risk: The Department is exposed to rollover risk on swap agreements which mature or may be terminated prior to the maturity of the associated debt. Bonds that are exposed to rollover risk are shown in table "Interest Rate Swaps Subject to Rollover."

Swap Payments and Associated Debt: Using rates as of Aug. 31, 2008, the estimated debt service requirements of the Department's variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown in the table "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments." As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

Pay-Fixed, Receive-Variable Interest Rate Swaps (University of Texas System)

Objective of the interest rate swap: In June 1999, the UT Board of Regents executed forward-starting, floating-to-fixed rate interest rate swap agreements with J.P. Morgan Chase Bank (Morgan) and Goldman Sachs Mitsui Marine Derivative Products, LP (Goldman Mitsui). The swap agreements were used to create a synthetic fixed-rate refunding of $80.5 million of UT Revenue Financing System Bonds, Series 1991A and 1991B ("Refunded Bonds"), on their optional redemption date of Aug. 15, 2001, to achieve debt service savings. On May 17, 2001, UT issued its Revenue Financing System Refunding Bonds, Series 2001A, in the form of variable rate demand bonds. The swap agreements effectively change UT's interest rate on the Series 2001A Bonds, subject to some basis risk discussed below, to a fixed rate of 4.633 percent. The difference between the swap rate and the rates on the Refunded Bonds called Aug. 15, 2001, resulted in estimated present value debt service savings of approximately $5.6 million.

On Dec. 4, 2007, UT executed floating-to-fixed rate interest rate swap agreements ("2007B swap agreements") with Morgan and UBS AG ("UBS"). On Dec. 20, 2007, UT issued its Revenue Financing System Refunding Bonds, Series 2007B, in the form of variable rate demand bonds

for the purpose of refunding portions of the outstanding Revenue Financing System Bonds, Series 2003B and Revenue Financing System Bonds, Series 2004D ("Series 2007B Refunded Bonds"). The 2007B swap agreements effectively change UT's interest rate on the Series 2007B Bonds to a fixed rate of 3.805 percent. The difference between the swap rate and the rates on the Series 2007B Refunded Bonds resulted in estimated present value debt service savings of approximately $30.2 million.

In March 2007, UT executed forward-starting, floating-to-fixed rate interest rate swap agreements (2008B Initial Swap Agreements) with Morgan and Morgan Stanley Capital Services, Inc. (MSCS). The 2008B swap agreements are being used to hedge interest rate risk on revenue financing system bonds expected to be issued in February 2008. In February 2008, UT executed an additional floating-to-fixed rate interest rate swap agreement (2008B Additional Swap Agreement) to hedge the remainder of the Revenue Financing System Bonds to be issued in March. On March 18, 2008, UT issued its Revenue Financing System Bonds, Series 2008B, in the form of variable rate demand bonds. The 2008B Swap Agreements effectively change UT's interest rate on the Series 2008B Bonds to a fixed rate of 3.743 percent. The difference between the swap rate and the rates on the Series 2008B Refunded Bonds resulted in estimated present value debt service savings of approximately $1.6 million.

Terms, Fair Values and Credit Ratings: On Feb. 6, 2007, the Goldman Mitsui 2001A Swap Agreement was ended and the Morgan 2001A Swap Agreement was increased to 100 percent of the notional amount. The terms, fair values and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of Aug. 31, 2008, are shown in the table titled "Pay-Fixed, Receive-Variable Interest Rate Swaps." The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds. Because interest rates have declined since the execution of the 2001A Swap Agreements, the 2001A Swap Agreements had a negative fair value of $1.2 million as of Aug. 31, 2008. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

Pursuant to the terms of the 2007B Swap Agreements, UT agreed to pay interest on a notional amount of $345.5 million at a fixed rate of 3.805 percent per annum, with such obligation commencing on Dec. 20, 2007. In consideration of receiving the payments from UT, Morgan and UBS agreed to pay to UT a variable rate based on the SIFMA Municipal Swap Index. The Morgan 2007B Swap Agreement was for 50 percent of the notional amount and the UBS 2007B Swap Agreement was for 50 percent of the notional amount. The 2007B Swap Agreements are scheduled to terminate on Aug. 1, 2034, and had a negative fair value of $7.3 million as of Aug. 31, 2008. The fair value was estimated using market-standard practice, as described above.

Pursuant to the terms of the 2008B initial swap agreements, UT agreed to pay interest on a notional amount of $310 million at a fixed rate of 3.9 percent per annum, commencing on March 18, 2008. Pursuant to the terms of the 2008B additional swap agreements, UT agreed to pay interest on a notional amount of $375 million at a fixed rate of 3.614 percent per annum, commencing on March 18, 2008. In consideration for these payments, Morgan and MSCS agreed to pay UT a variable rate based on SIFMA Municipal Swap Index. The Morgan Swap Agreement and the MSCS Swap Agreement were each for 50 percent of the notional amount of the 2008B initial swap agreement. Morgan is the sole counterparty in the 2008B additional swap agreement. The 2008B initial swap agreements are scheduled to terminate on Aug. 1, 2036, and the 2008B additional swap agreement is scheduled to terminate on Aug. 1, 2039. Fair value of the 2008B swap agreements at Aug. 31, 2008 was estimated at a negative $13.5 million ($10.5 million and $3 million, respectively) using market-standard practice as described above.

Basis and Termination Risk: The Morgan 2001A Swap Agreement exposes UT to basis risk as the variable rate received under the swap agreement does not perfectly match the variable rate paid on the Series 2001A Bonds. The swap agreement may be terminated if the counterparty does not maintain a credit rating of at least Aa3 by

Moody's or AA- by S&P. The Aug. 31, 2008, ratings are disclosed in the "Pay-Fixed Receive-Variable Interest Rate Swaps" table. The swap agreement may also be terminated by Morgan if UT does not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P. As of Aug. 31, 2008, the UT Revenue Financing System obligations were rated Aaa by Moody's and AAA by S&P.

The 2007B swap agreements expose UT to termination risk. Each 2007B swap agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Baa2 by Moody's Investors Service ("Moody's") or BBB by Standard & Poor's Corporation ("S&P"). The Aug. 31, 2008, ratings are disclosed in the "Pay-Fixed Receive-Variable Interest Rate Swaps" table. As of Aug. 31, 2008, the UT Revenue Financing System obligations were rated Aaa by Moody's and AAA by S&P. The 2007B swap agreements may also be terminated by Morgan or UBS, respectively, if UT's Revenue Financing System obligations are not rated at least Baa2 by Moody's or BBB by S&P.

The 2008B swap agreements expose UT to termination risk. Each 2008B swap agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Baa2 by Moody's or BBB by S&P. The Aug. 31, 2008, ratings are disclosed in the "Pay-Fixed Receive-Variable Interest Rate Swaps" table. The swap agreements may also be terminated by Morgan or MSCS if the UT does not maintain a credit rating of at least Baa2 by Moody's or BBB by S&P. As of Aug. 31, 2008, the UT Revenue Financing System obligations were rated Aaa by Moody's and AAA by S&P.

Swap Payments and Associated Debt: Using rates as of Aug. 31, 2008, the estimated debt service requirements of UT's variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown on the table "Pay-Fixed, Receive-Variable Interest Rate Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments." As rates and index relationships vary in the future, so will the resulting actual interest and net swap payments.

Note 7

Capital Leases

The state has entered into long-term capital leases to buy certain assets. The capital assets are recorded at the present value of the future minimum lease payments at the inception of the lease plus any cash paid or trade-in value received.

For governmental and business-type activities, the assets and liabilities are recorded in the government-wide financial statements.

The table below is a summary of the future minimum lease payments for capital leases.

Future Capital Lease Payments

August 31, 2008 (Amounts in Thousands)

	Primary Government						Discretely Presented Component Units		
	Governmental Activities			Business-Type Activities					
Year	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments
2009	$ 1,562	$ 612	$ 2,174	$ 2,667	$ 557	$ 3,224	$ 93	$ 3	$ 96
2010	1,664	505	2,169	2,143	561	2,704	64	2	66
2011	1,633	395	2,028	1,664	360	2,024	8		8
2012	1,659	285	1,944	975	293	1,268			
2013	2,144	154	2,298	935	255	1,190			
2014 - 2018	960	29	989	3,993	751	4,744			
2019 - 2023				1,488	246	1,734			
2024 - 2028				428	50	478			
Total	$ 9,622	$ 1,980	$ 11,602	$ 14,293	$ 3,073	$ 17,366	$ 165	$ 5	$ 170

The following table is an analysis of the property acquired under capital leases by asset category at Aug. 31, 2008.

Assets Under Capital Leases

August 31, 2008 (Amounts in Thousands)

	Primary Government				Discretely Presented Component Units*	
	Governmental Activities		Business-Type Activities			
Type	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation
Land	$	$	$ 456	$	$	$
Buildings	18,084	10,974	12,059	1,838		
Furniture and Equipment	4,707	3,718	10,624	3,003		
Vehicles, Boats, etc.			375	194		
Total	$ 22,791	$ 14,692	$ 23,514	$ 5,035	$ 0	$ 0

* The original cost of each asset reported as a capital lease was lower than the capital asset threshold.

Note 8

Operating Leases

Included in rental expenditures or expenses are assets leased on a long-term basis that have been classified as operating leases. The following is a schedule of minimum future rentals on noncancelable operating leases as of Aug. 31, 2008.

Noncancelable Operating Leases

August 31, 2008 (Amounts in Thousands)

Year	Minimum Future Lease Payments: Primary Government	Minimum Future Lease Payments: Component Units
2009	$220,440	$ 1,421
2010	188,087	893
2011	150,776	636
2012	119,864	322
2013	91,221	262
2014 – 2018	180,419	649
2019 – 2023	5,943	
2024 – 2028	1,345	
2029 – 2033	917	
2034 – 2038	312	
Total	$959,324	$ 4,183

Note 9

Retirement Plans

The state of Texas has three public employee retirement systems (PERS) that administer six defined benefit pension plans. All defined benefit plans are included in the state's financial statements as pension trust funds. Amounts and types of securities held by the retirement systems are included in Note 3. The three entities that administer the plans are: the Employees Retirement System of Texas (ERS), the Teacher Retirement System of Texas (TRS) and the Fire Fighters' Pension Commission (FPC). These entities issue separate financial reports. These reports are individually audited with a separate opinion issued for each and may be obtained from the following:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Fire Fighters' Pension Commission
920 Colorado Street, 11th Floor
Austin, Texas 78701-2332

The state has also established a defined contribution plan as authorized by Tex. Gov. Code, Chapter 830. The optional retirement program (ORP) is available as an alternative to the TRS defined benefit pension plan for certain eligible employees of public higher education institutions.

GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, is not applicable for the state of Texas since the health care plans are not administered by the pension trust funds.

DESCRIPTION OF PLANS AND FUNDING POLICY

Employees Retirement System of Texas

The Board of Trustees of ERS is the administrator of four pension plans. Each of these plans is considered to be a single-employer defined benefit pension plan.

- The Employees Retirement System of Texas Plan (ERS Plan);
- The Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS); and
- The Judicial Retirement System of Texas Plan One and Plan Two (JRS).

Each plan provides a standard monthly benefit in a life annuity at retirement as well as death and disability benefits for members. A Partial Lump Sum Payment Option is available to members of the employee class, the elected class and law enforcement and custodial officers. A one-time partial lump sum of up to three years of standard annuity at retirement can be taken and the annuity is reduced for life. The benefit and contribution provisions are authorized by state law and may be amended by the Legislature. Contribution requirements are not actuarially

determined, but are set by legislation, except for the JRS Plan Two under which state contribution rates are actuarially determined every even-numbered year for the next biennium.

Investments of the ERS administered pension plans are reported at fair value. The fair value is based on published market prices and quotations from major investment brokers at current exchange rates, as available, plus accrued interest and dividends. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors and the Master Trust Custodian, determines the fair values for the individual investments.

The ERS audited report contains the actuarial valuations as of Aug. 31, 2008, along with an actuarial letter dated Nov. 6, 2008. No subsequent legislative action that would negatively affect their certification of actuarial soundness of the funds was noted.

The ERS Plan, established by the Tex. Gov. Code, Title 8, Subtitle B, Chapters 811-815 covers elected class members, employee class members, commissioned peace officers and custodial officers. The funding policy requires monthly contributions by both the state and employees (see "Funding Information, Actuarial Methods and Assumptions" table). The monthly benefit is determined by the years and months of service multiplied by a statutorily determined percentage and may vary by class.

- The elected class members are vested after eight years of credited service and may retire at age 50 with 12 years of service or at age 60 with eight years of service. The statutory percentage is equal to 2.3 percent of the current state salary of a district judge.
- The employee class includes all employees and appointed officers of the state and excludes independent contractors and their employees and employees covered by TRS and JRS. Employee class retirement benefits vest after five years of credited service and employees may retire at age 60 with five years of service or at any age when the combination of age and service (including months) total 80. The monthly standard annuity equals the statutory percentage of 2.3 percent times the average of the highest 36 months of compensation. The minimum monthly standard annuity is $150; the maximum standard annuity is 100 percent of the average monthly compensation.
- Commissioned peace officers and custodial officers may retire at age 55 with 10 years of service.

LECOS, established under Tex. Gov. Code, Chapter 814.107, covers statutorily certified custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, who have contact with inmates of that institution. The fund also covers other commissioned state agency law enforcement officers who are recognized by the Commission on Law Enforcement Officer Standards and Education.

Benefits vest after 20 years of credited service. Covered employees may retire at age 50, if vested, or the age at which the sum of the member's age and amount of service credit in the employee class equals 80. A member may receive reduced benefits upon completing 20 years of service, regardless of age. The monthly benefit at retirement is payable in a life only form of annuity. The monthly annuity is equal to 2.8 percent of average monthly compensation multiplied by years of service. Average monthly compensation is the average of the highest 36 months of salary out of the member's established service. The minimum monthly standard annuity is $150; the maximum standard annuity is 100 percent of the average monthly compensation.

There are no member contributions for the LECOS fund. Annual actuarial valuations of the fund are performed to monitor the adequacy of the financing arrangement. During the 2007 legislative session, state funding was appropriated for this fund for the biennium ending Aug. 31, 2009, based on 1.59 percent of covered payroll for LECOS members.

JRS covers judges, justices and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, district courts and certain commissions to a court. Members prior to Sept. 1, 1985, participate in Plan One and all others participate in Plan Two. Participants in both plans may retire at age 65 with 10 years of service with at least the last year being continuous and currently holding judicial office, or at age 65 with 12 years of service. Members of Plan One and Plan Two may retire at

any age with 20 years of service. Prior to Sept. 1, 2005, members of Plan Two were restricted to retirement at age 55 with 20 years of service. Participants in both plans are eligible for reduced early service retirement benefits once they attain age 60 and complete 10 years of service if the member currently holds judicial office with at least the last year being continuous or at age 60 with 12 years of service.

The monthly benefit at retirement is payable in a life only form of annuity. The monthly benefit for members of both plans is equal to 50 percent of the salary for the position from which the member retired and is increased by 10 percent of final compensation if in office within one year of benefit commencement.

Tex. Gov. Code, Title 8, Subtitle D, Chapter 835 requires employees to contribute 6 percent of their compensation and the state to make appropriations from the general revenue fund sufficient to administer JRS Plan One. The contribution requirements are not actuarially determined since the plan is not funded in advance. There are actuarial valuations and an actuarial cost method only for fulfilling GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, requirements.

The funding policy of JRS Plan Two is established by Tex. Gov. Code, Title 8, Subtitle E, Chapter 840. The state's contribution to the plan is determined each even-numbered year for the next biennium and is based upon an actuarial valuation. Significant actuarial assumptions are the same as those used to compute the net pension benefit.

Teacher Retirement System of Texas

TRS administers retirement, proportional retirement, disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas (the Plan). TRS is a multiple-employer PERS. It is a cost-sharing PERS with one exception: risks and costs are generally not shared by the employers (unless the employer is a senior college, medical school or a state agency in which case the employer is considered the state of Texas) but are the responsibility of the state of Texas. The state of Texas has elected to report the Plan under the sole-employer provisions of GASB 27 since it is legally responsible for a significant portion of the annual required contributions. The benefit and contribution provisions of the Plan are authorized by state law and may be amended by the Legislature.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Tex. Gov. Code, Title 8, Subtitle C, Chapter 822 are covered by the Plan.

A member is vested after five years of creditable service and is eligible to retire at a future date and receive a lifetime monthly annuity. The normal service retirement is at age 65 with five years of credited service or when the sum of the member's age and years of credited service equals at least 80 years. The service age requirement for early retirement is age 55 with five years of credited service or any age below 50 with 30 years of credited service. The standard life annuity benefit formula is 2.3 percent of the average of the five highest annual salaries multiplied by the years of service. For members who are "grandfathered," the three highest annual salaries are used. At normal retirement age, the minimum monthly standard annuity is the greater of $150 or the formula standard annuity. Total payments shall in no case be less than accumulated contributions at retirement.

Law changes from the 2007 legislative session modified the state contribution rate for the TRS plan. Effective Sept. 1, 2007, the state contribution rate was increased from 6 percent to 6.58 percent of pay. The new law also requires the state contribution rate to be at least equal to the member contribution rate.

At Aug. 31, 2008, the number of participating employing districts was as follows.

Employing Districts

Public Schools, Service Centers and Charter Schools	1,256
Colleges, Universities and Medical Schools	102
Educational State Agencies	2
Total	1,360

Contribution requirements are not actuarially determined, but are legally established each biennium pursuant to the following state funding policy.

The Texas Constitution requires the Legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation of all members of TRS during that fiscal year. A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Investments of the Plan are reported at fair value. The fair value of investments is based on published market prices and quotations and current exchange rates. The fair value of commingled funds is based on the Net Asset Value of the fund at the valuation date. For alternative investments where no readily ascertainable market value exists, management has determined fair values for individual investments based on the capital account balance at the closest available reporting period, adjusted for subsequent contributions, distributions, management fees and reserves.

TRS offers to all service and eligible disability retirees several annuity payment options that reduce the standard annuity by application of age-related actuarial reduction factors in order to continue payment to a beneficiary after the retiree's death. The available options include 100, 75 and 50 percent joint and survivor annuities and five and 10 year guaranteed period annuities.

TRS also offers two other annuity payment options:

- The Deferred Retirement Option Plan (DROP)
  DROP allows members to freeze their standard annuity and, instead of retiring, to have a portion of the frozen standard annuity deposited into a DROP account while continuing to work for a TRS-affiliated employer. Members may elect to participate in the DROP program for up to five years. The plan was closed for new participants effective Dec. 31, 2005.
- A Partial Lump-Sum Cash Option (PLSO)
  PLSO reduces the standard monthly annuity and provides a cash lump sum distribution. Members may participate in the PLSO if they are eligible for service retirement and meet the Rule of 90 (age and years of service credit equal at least 90), are not participating in the DROP plan and are not retiring with disability benefits.

Optional Retirement Program

All public higher education and public K-12 education employees employed in a position that is eligible for the TRS defined benefit pension plan are automatically enrolled in TRS on their first day of employment. Full-time faculty, librarians and certain professionals and administrators employed in public higher education are eligible to elect the Optional Retirement Program (ORP) in lieu of TRS before the 91st day after becoming eligible. It is a one-time irrevocable choice between two distinct plans. The ORP is administered by the benefits offices at each employer. The Texas Higher Education Coordinating Board develops policies, practices and procedures to provide greater uniformity in the administration of the ORP.

The ORP is a defined contribution pension plan in which each participant selects from a variety of investments offered by several companies through annuity contracts or mutual fund investments. These types of investments are authorized by Section 403(b) of the Internal Revenue Code. With the purchase of these individual contracts, the state has effectively transferred the obligation for the payment of benefits to the company. Benefits in the ORP vest after one year of participation.

The contributory percentages of participant salaries provided by each participant and the state were 6.65 percent for the participant and 6.58 percent for the state. Institutions and agencies authorized under state law to provide ORP to their employees may supplement the state contribution at a rate up to 1.92 percent of payroll.

Individual accounts are maintained at the insurance and investment companies selected by each ORP participant. Separate financial statements for ORP are not pre-

Retirement Systems' Membership

	ERS*	LECOS*	JRS1*	JRS2*	TRS**	TESRS***
Retirees and Beneficiaries Currently Receiving Benefits	72,678	6,204	471	117	275,228	1,939
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	74,094	35	7	120	56,300	1,975
Current Employees: Vested and Non-Vested	134,626	33,642	27	518	924,247	4,340
Total Members	281,398	39,881	505	755	1,255,775	8,254

* Totals are from actuarial valuations as of Aug. 31, 2008.

** Totals are from the audited agency annual financial report.

*** This total does not include the 562 retirees and beneficiaries from the TLFFRA (Texas Local Firefighters Retirement Act) plan as of Aug. 31, 2008.

Funding Information, Actuarial Methods and Assumptions

(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS	TESRS*
Contribution Rates						
Employees	6.0%	0.0%	6.0%	6.0%	6.4%	N/A
Legislators	8.0%	N/A	N/A	N/A	N/A	N/A
Employer**	6.45%	1.59%	N/A	16.83%	6.58%	N/A
Annual Pension Cost	$378,269	$19,678	$26,792	$11,480	$1,432,030	$3,161
Employer Contributions Made***	$341,628	$20,192	$28,657	$11,138	$1,451,028	$2,439
Actuarial Valuation Date	Aug. 31, 2008	Aug. 31, 2008	Aug. 31, 2008	Aug. 31, 2008	Aug. 31, 2008	Aug. 31, 2008
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open	Level Percent Open	Level Dollar Open
Remaining Amortization Period of Unfunded Liability	30 years	30 years	30 years	2.8 years****	20.7 years	6 years
Asset Valuation Method	5-year Smoothed Fair Value	5-year Smoothed Fair Value	N/A	5-year Smoothed Fair Value	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:						
Investment Rate of Return	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases	0.0%-13.5%	5.5%-13.5%	3.5%	3.5%	4.25%-26.4%	N/A
Includes Inflation at	3.5%	3.5%	3.5%	3.5%	3.0%	3.5%
Cost-of-Living Adjustments	None-Employee 3.5%-Elected	None	3.5%	None	None	None

* Contributions and benefits are not based on the salaries of members.

** The plan for JRS1 is closed to new participants and the state contributions are based upon benefits paid to participants during the year. Contribution requirements for JRS2 are actuarially determined each even-numbered year. TRS and ERS contribution requirements are based on actuarial evaluations as established by state statute.

*** Contributions do not include $8.8 million of state appropriations to the TESRS plan.

**** The amortization period was calculated based on estimated fiscal 2009 covered payroll. At the end of fiscal 2009, the ARC and the amortization period will be recalculated based on actual 2009 covered payroll.

pared because the state retains no liability for plan performance and has very limited administrative involvement.

The employers of the ORP are state universities, one educational state agency and several two-year college institutions that are not part of the state reporting entity. State entity participation in the ORP plan for fiscal 2008 resulted in participant contributions of $200.3 million and employer contributions of $234.2 million.

Updated information for the complete ORP plan will be available in the fiscal 2008 *ORP Participation Report Summary* published annually by the Texas Higher Education Coordinating Board. For the year ended Aug. 31, 2007, the ORP plan had 39,429 participants. The total participant contributions were $226 million and total employer contributions were $257.3 million. ORP participation reports may be obtained from the following:

Statewide Coordinator, Optional Retirement Program
Texas Higher Education Coordinating Board
P.O. Box 12788
Austin, TX 78711-2788

Fire Fighters' Pension Commission

FPC is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple-employer pension plan established and administered by the state of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At Aug. 31, 2008, there were 182 member fire departments participating in TESRS.

The statutory authority for TESRS is found in Tex. Gov. Code, Title 8, Subtitle H, Chapters 861-865. The governing bodies of participating departments are required to contribute at least the minimum prescribed amount per month for each active member. No contributions are required by individual members of participating departments. Additional contributions may be made by a governing body to pay for granting credit for service before the department began participating in TESRS. The state may also be required to make a limited amount of annual contributions to make the fund actuarially sound. The contributions may not exceed the amount of one-third of the total of all contributions by governing bodies in one year. The state is not an employer of the TESRS plan; therefore, the sole-employer reporting provisions of GASB 27 for net pension obligation calculations are not applicable.

Investments of TESRS are reported at fair value. The fair value of investments is based on market prices provided by the fund custodian, State Street Bank and Trust. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, determines the fair values for the individual investments.

Eligible members include volunteer emergency service personnel who are members in good standing with a qualifying fire-fighting unit. Effective Jan. 1, 2007, the TESRS board amended the vesting and reduced the compounded amount paid for each year of service over 15 years. The TESRS board protected currently vested members by "grandfathering" vested accrued benefits as of Dec. 31, 2006.

Through Dec. 31, 2006, a current member became vested upon completing at least five years of qualified service. These members were vested, beginning with the fifth year of service at 5 percent per year of service for the first 10 years and 10 percent for each of the next five years of service.

Effective Jan. 1, 2007, a member must have at least ten years of qualified service to become vested. Those members are vested at 50 percent and accrue an additional 10 percent for each of the next five years of service.

Vested members are eligible to receive a pension for life starting at age 55 that is equal to six times the average contribution rate paid by the governing entity over the member's period of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 7 percent compounded annually for "grandfathered" members, or 6.2 percent for members vested under the amended Jan. 1, 2007, TESRS board rules.

Actuarial valuations are performed biennially. Death and disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump-sum amount and continuing monthly payments to a member's spouse and dependents.

The member fire department contributions to the fund for the years ending Aug. 31, 2008, 2007 and 2006, were $2.4 million, $2.5 million and $2.1 million, respectively. In addition, the Legislature appropriated $8.8 million of contributions for the fiscal year ending Aug. 31, 2008. Contributions made were greater than the yearly statutorily required contributions.

The Texas Local Fire Fighters' Retirement Act (TLFFRA) allows participating cities to administer local fire fighter pension funds. These individually managed funds have varied contribution requirements. FPC provides oversight, records administration and other administrative support to the locally managed pension plans.

Upon election, a department under TLFFRA can merge with the TESRS plan. At Aug. 31, 2008, there were 101 plans merged into the TESRS plan. Benefit determinations for these merged plans are determined by each local governing board. Authority for contributions is established by statute.

Separate accounts are maintained for each merged plan. The vested members of former TLFFRA plans will be paid by FPC with funds received from the local governing bodies on a pay-as-you-go basis. There are no reserves required in the TLFFRA retirement program. Fund assets are always offset by an equal amount of fund liabilities in accordance with the statutory requirements of the TLFFRA retirement program. As of Aug. 31, 2008, membership consisted of 562 retirees and beneficiaries currently receiving TLFFRA benefits.

Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation for plans subject to sole-employer provisions of GASB 27 for fiscal 2008 are presented below.

Annual Pension Cost and Net Pension Obligation

(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS*	TESRS**
Annual Required Contribution, ARC	$ 378,236	$ 19,516	$ 27,258	$ 11,022	$1,426,771	$ 3,161
Interest on Net Pension Obligation, NPO	113	557	6,818	(582)	26,255	N/A
Adjustment to ARC	(80)	(395)	(7,285)	1,040	(20,996)	N/A
Annual Pension Cost	378,269	19,678	26,791	11,480	1,432,030	3,161
Employer Contributions Made	341,628	20,192	28,656	11,138	1,451,028	2,439
Increase (Decrease) in NPO	36,641	(514)	(1,865)	342	(18,998)	N/A
Net Pension Obligation/(Asset), September 1, 2007	1,409	6,956	85,225	(7,270)	328,182	N/A
Net Pension Obligation/(Asset), August 31, 2008***	$ 38,050	$ 6,442	$ 83,360	$ (6,928)	$ 309,184	N/A

* The sole-employer provisions of GASB 27 apply to TRS.

** An NPO calculation is not applicable for TESRS because the state is not an employer in the TESRS plan. Contributions do not include $8.8 million of state appropriations to the FPC plan.

*** See "Funding Information, Actuarial Methods and Assumptions" table for actuarial assumptions used in determining cost and obligation.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

The table below presents the three-year trend information regarding annual pension cost and net pension obligation of the plans.

Three-Year Trend Information

(Amounts in Thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Employees Retirement System (ERS)			
08/31/08	$ 378,269	90.3%	$ 38,050
08/31/07	369,599	89.2%	1,409
08/31/06	360,224	87.8%	(38,666)
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)			
08/31/08	$ 19,678	102.6%	$ 6,442
08/31/07	6,956	0.0%	6,956
08/31/06	0	0.0%	0
Judicial Retirement System Plan One (JRS1)			
08/31/08	$ 26,791	107.0%	$ 83,360
08/31/07	28,497	101.9%	85,225
08/31/06	27,239	101.6%	85,757
Judicial Retirement System Plan Two (JRS2)			
08/31/08	$ 11,480	97.0%	$ (6,928)
08/31/07	11,148	97.9%	(7,270)
08/31/06	9,938	101.1%	(7,509)
Teacher Retirement System of Texas (TRS)			
08/31/08	$ 1,432,030	101.3%	$ 309,184
08/31/07	1,722,454	85.4%	328,182
08/31/06	1,593,347	83.6%	76,859
Texas Emergency Services Retirement System (TESRS)*			
08/31/08 **	$ 3,161	356.0%	N/A
08/31/06 **	2,753	100.0%	N/A
08/31/04	2,897	65.0%	N/A

* TESRS is not subject to NPO calculation because the state is not an employer in the TESRS plan.

** Actuarial assumptions and methodology were changed for the Aug. 31, 2006 and Aug. 31, 2008 valuations.

Funded Status

The state's pension plans funded status information for each plan as of Aug. 31, 2008, is presented below.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Included in the audited financial reports for the Employees Retirement System of Texas, the Teacher Retirement System of Texas and the Fire Fighters' Pension Commission are:

(1) Schedules of funding progress that include historical trend information about the actuarially determined funded status of the plan from a long-term on-going plan perspective and the progress made in accumulating sufficient assets to pay benefits when due.

(2) Schedules of employer contributions that include historical trend information about the Annual Required Contributions (ARC) of the employer and the contributions made by the employers in relation to the ARC.

Funded Status

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c)
Employees Retirement System (ERS)						
08/31/08	$ 23,511,918	$ 25,403,280	$ (1,891,362)	92.6%	$ 5,379,527	(35.2)%
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)						
08/31/08	$ 774,509	$ 842,135	$ (67,626)	92.0%	$ 1,242,122	(5.4)%
Judicial Retirement System Plan One (JRS1)						
08/31/08	$ 0	$ 289,671	$ (289,671)	0.0%	$ 3,478	(8,328.7)%
Judicial Retirement System Plan Two (JRS2)						
08/31/08	$ 232,891	$ 239,098	$ (6,207)	97.4%	$ 66,110	(9.4)%
Teacher Retirement System of Texas (TRS)						
08/31/08	$ 110,233,420	$ 121,756,542	$ (11,523,122)	90.5%	$ 33,237,904	(34.7)%

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Total Members Covered (not rounded)	Excess/UAAL Per Member Covered (not rounded)
Texas Emergency Services Retirement System (TESRS)						
08/31/08*	$ 60,987	$ 64,227	$ (3,240)	95.0%	8,254	$ (393)

* Actuarial assumptions and methodology were changed for the Aug. 31, 2008 valuation.

Note 10

Deferred Compensation

The state of Texas offers to all state employees two deferred compensation plans. One is established in accordance with Internal Revenue Code Section 457. The second is established in accordance with Internal Revenue Code Section 401(k). All costs of administering and funding these programs are the responsibility of plan participants. The assets of the two plans remain the property of the contributing employees and are not presented in the accompanying financial statements. The state makes no contributions to either plan, the assets do not belong to the state and the state has no liability related to the plans.

The University of Texas System (System) offers its own deferred compensation plan, created in accordance with Internal Revenue Code Section 457(b). All System employees are eligible to participate in the System's plan, and do not participate in the plan offered by the state of Texas. All investments, amounts, property and rights held under the deferred compensation trust fund are held for the exclusive benefit of participants and beneficiaries at the fair market value of the plan account for each participant. The System has no liability under the plan.

Note 11

Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state of Texas contributes to four plans that provide health care and life insurance benefits for retired employees, their spouses and beneficiaries. These other postemployment benefits (OPEB) are authorized by statute and contributions are determined by the General Appropriations Act.

The state of Texas is a participating employer in three different OPEB plans and is an on-behalf contributor to one plan. The financial statement recognition and note disclosure requirements in GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, were applied separately for each plan. The following note disclosures are organized by OPEB plan administrator.

University of Texas and Texas A&M University Systems

The state of Texas contributes to two single-employer defined benefit retiree health care plans: the UT System Employee Group Insurance Program (UT plan) and A&M Care Health and Life Plan (A&M plan). The UT plan is administered by the University of Texas System and the A&M plan is administered by the Texas A&M University System.

The University of Texas System and the Texas A&M University System elected to implement GASB 45 in fiscal 2008. The results of the first annual OPEB valuations for the UT and A&M plans are incorporated into this note. Each system issues a publically available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to the systems at the following addresses.

University of Texas System
601 Colorado Street
Austin, Texas 78701-2982

Texas A&M University System
200 Technology Way
College Station, Texas 77845

Plan Descriptions

Each plan provides separate postemployment health care and life insurance coverage to university system retirees, surviving spouses and beneficiaries. The University of Texas System and Texas A&M University System are part of the state of Texas primary government. Employees of these systems are considered to be state employees. Benefit provisions for the UT plan and A&M plan are established and amended by the administering systems as allowed under Texas Insurance Code Chapter 1601. Retiree eligibility for insurance continuation after employment is determined by the Legislature and is subject to change.

Funding Policy

The university system and member contribution rates are determined annually by each system based on the recommendations of the employee benefits office and consulting actuaries. The plan rates are based on the plan costs that are expected to be incurred, the funds appropriated for the plans and the funding policy established by the Legislature in connection with benefits provided through the plan. Amounts contributed by the state are currently based on pay-as-you-go financing requirements determined during each legislative session. State contribution requirements are established and may be amended by the Legislature. For fiscal 2008 the employer contributions and annual OPEB costs are presented below.

Schedule of Contributions from the Employers and Other Contributing Entities

(Amounts in Thousands)

Fiscal Year Ending	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
UT Plan				
8/31/08	$ 99,892	$522,570	19.1%	$422,678
A&M Plan				
8/31/08	$ 36,284	$176,593	20.5%	$140,309

For the year ended Aug. 31, 2008, the state made monthly contributions for health care and life insurance to the UT and A&M plans. Contribution rates are shown below. Costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

Employer Contribution Rates – Retiree Health and Basic Life Premium

For the Fiscal Year Ended August 31, 2008

Level of Coverage	UT Plan	A&M Plan
Retiree Only	$ 369	$ 376
Retiree/Spouse	$ 563	$ 552
Retiree/Children	$ 493	$ 486
Retiree/Family	$ 687	$ 639

Annual OPEB Cost and Net OPEB Obligation

The state's annual OPEB cost for the UT and A&M plans is calculated based on the annual required contributions of the employers (ARC). The ARC is an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period no greater than 30 years. The following table shows the components of the annual OPEB cost for the year for the UT and A&M plans.

Annual OPEB Cost and Net OPEB Obligation

(Amounts in Thousands)

	UT Plan	A&M Plan
Annual Required Contribution, ARC	$522,570	$176,593
Interest on Net OPEB Obligation		
Adjustment to ARC		
Annual OPEB Cost	522,570	176,593
Employer Contributions Made	99,892	36,284
Increase Net OPEB Obligation	422,678	140,309
Net OPEB Obligation, September 1, 2007	0	0
Net OPEB Obligation, August 31, 2008	$422,678	$140,309

Funded Status and Funding Progress

The funded status of the UT and A&M plans as of Aug. 31, 2008, is disclosed below.

Funded Status

(Amounts in Thousands)

	UT Plan	A&M Plan
Actuarial Accrued Liability (AAL)	$5,014,217	$1,993,236
Actuarial Value of Plan Assets		
Unfunded Actuarial Accrued Liability (UAAL)	$5,014,217	$1,993,236
Funded Ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered Payroll (active plan members)	$4,312,904	$1,140,126
UAAL as a Percentage of Covered Payroll	116.3%	174.8%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements. The schedule presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used in the UT and A&M plan valuations include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. See the table below for additional detail on the actuarial methods and assumptions used in the UT and A&M plans valuations.

Summary of Actuarial Methods and Assumptions

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2007	Sept. 1, 2007
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open
Remaining Amortization Period of Unfunded Liability	30 years	30 years
Asset Valuation Method	Market	N/A
Actuarial Assumptions:		
Investment Rate of Return	7%	7%
Includes Inflation at	4%	4%
Health Care Trend Rates	8% initial 6% ultimate	8% initial 6% ultimate

Employees Retirement System of Texas

The Employees Retirement System (ERS) administers a program that provides postemployment health care, life and dental insurance benefits to retirees through the Group Benefits Program as authorized by Texas Insurance Code Section 1551.102. The State Retiree Health Plan (SRHP) is a cost-sharing multiple-employer defined benefit plan with 56 participating employers.

In a cost sharing multiple-employer plan without a special funding situation, employers recognize their annual contractually required contributions to the plan in the fund financial statements. Because the SRHP is funded by multiple employers the GASB 45 special funding situation does not apply.

For cost-sharing multiple-employer defined benefit plans like the SRHP, the amount of OPEB liability or asset is equal to the difference between contributions required and contributions made. Contractually required contributions to a cost-sharing multiple-employer OPEB Plan are not required to be based on the plan ARC. The contractually required contributions of the SRHP are currently set equal to the pay-as-you-go annual cost of the plan benefits.

Each employer has limited note disclosure requirements under the cost sharing multiple-employer provisions of GASB 45. Additionally, each employer is not required to disclose the actuarial information as it relates to the entire plan on their individual employer report. Instead, the OPEB plan discloses all required actuarial calculations in the notes to their financial statements and required supplementary information. ERS issues a publically available financial report that includes financial statements and required supplementary information for the SRHP. That report may be obtained by writing to ERS at the following address.

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Plan Description

Retirees of state agencies, state universities (not part of the University of Texas and Texas A&M University systems) and other non-state entities selected by the Legislature are eligible to receive these OPEB through the SRHP. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. Surviving spouses and dependents of retirees are also covered by the plan. Benefit and contribution provisions of the SRHP are authorized by state law and may be amended by the Legislature.

The financial statements of the SRHP are reported using the accrual basis of accounting. Contributions are recognized when due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Investments of the SRHP are reported at fair value. The fair value is based on published market prices and quotations from major investment brokers at current exchange rates, as available, plus accrued interest and dividends. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors and the Master Trust Custodian, determines the fair values for the individual investments.

Funding Policy

The Legislature sets and has the power to amend annual state contributions to the SRHP. Currently, the state pays 100 percent of eligible retiree health insurance premiums and 50 percent of dependents' premiums. The retiree contributes any premium over and above state contributions. The chart below summarizes the maximum monthly employer contribution toward the health and basic life premiums of eligible retirees.

Employer Contribution Rates – Retiree Health and Basic Life Premium

For the Fiscal Year Ended August 31, 2008

Level of Coverage	ERS SRHP
Retiree Only	$ 361
Retiree/Spouse	$ 567
Retiree/Children	$ 498
Retiree/Family	$ 705

Contractually required contributions to the plan are currently based on the annual pay-as-you-go expenses of the SRHP. In fiscal 2008 the state contributed $376.5 million to the SRHP, which equaled the required contribution.

Teacher Retirement System

The Teacher Retirement System (TRS) administers a program that provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit plan with 1,255 participating employers, provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents.

The state of Texas is not an employer in the TRS-Care OPEB plan and is not legally required to continue contributing benefits. A special funding situation is not created because costs are shared between the state and the many participating non-state school district employers. The fiscal 2008 contributions to the TRS-Care OPEB plan are displayed below.

Schedule of Contributions from the Employers and Other Contributing Entities

For the Fiscal Year Ended August 31, 2008
(Amounts in Thousands)

	TRS-Care
From Reporting Entities	$ 141,673
On Behalf From State	254,722
On Behalf From Federal Government	59,486
	$ 455,881

TRS issues a publically available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to TRS at the following address.

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Plan Description

Basic coverage includes participation in a major medical group health insurance plan with deductibles based upon enrollment in Part A or Part B of Medicare. Eligibility provisions of the TRS-Care plan are established in Texas Insurance Code Chapter 1575.

The financial statements for TRS-Care are reported using the accrual basis of accounting. Contributions are recognized in the period in which amounts are due, pursuant to state law. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan.

Investments of TRS-Care are reported at fair value. The fair value of investments is based on published market prices and quotations at current exchange rates. For investments where no readily ascertainable market value exists, management has determined fair values for the individual investments based on the capital account balance at the closest available reporting period, adjusted for subsequent contributions, distributions, management fees and reserves.

Funding Policy

Funding for free basic coverage is provided based on public school district payroll. The state and active school employee contribution rates are 1 percent and 0.65 percent of school district payroll, respectively, with school districts also contributing 0.55 percent of payroll.

TRS-Care retiree health care and life insurance benefits are financed on a pay-as-you-go basis. The expenditures are recognized when reimbursements are made for claims paid by non-state entities or when premiums are paid.

In fiscal 2008 the state contributed $254.7 million to TRS-Care. The state is not contractually required to contribute to the TRS-Care plan because it is not an employer in the plan.

Medicare Part D

In fiscal 2008 the administrators of each OPEB plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, requires that these on-behalf payments be recorded as revenues and expenses of each plan. The OPEB administrators reported the following amounts of Medicare Part D payments from the federal government in fiscal 2008.

Medicare Part D Receipts

For the Fiscal Year Ended August 31, 2008
(Amounts in Thousands)

UT Plan	$ 6,215
A&M Plan	3,092
ERS SRHP	32,964
TRS-Care	59,486
	$ 101,757

Note 12

Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions under GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, refer to financial interactions with legally separate entities, i.e., discrete component units and other governments, and are restricted to external events.

Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity between funds and blended component units with a requirement for repayment. These loans are reported as interfund receivables/payables, classified as either current or noncurrent.

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after nonoperating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year end are accrued as "due from/due to." Activity occurring within the same fund has been eliminated. Additional eliminations have been made and transfers in and out have been netted and presented in the government-wide statement of activities as "transfers-internal activities."

According to GASB 34, certain reclassifications and eliminations have been made between the fund financial statements and the government-wide financial statements. Resource flows between the primary government and its discretely presented component units have been reported as revenues and expenses, as if they were external transactions on the fund financial statements and the government-wide financial statements. Transfers between the governmental or business-type activities and the fiduciary funds have been reported as transfers on the fund financial statements and were reclassified to revenues and expenses, as if they were external transactions on the government-wide financial statements.

Due from/due to amounts between the primary government and the discretely presented component units are reported separately from due from/due to amounts between funds in the fund financial statements and the government-wide financial statements, according to GASB 34. Due from/due to amounts between governmental or business-type activities and fiduciary funds are reported as due from/due to amounts between funds in the fund financial statements and are reclassified to receivables from fiduciary funds/payables to fiduciary funds, as if they were external transactions on the government-wide financial statements.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. Reimbursements are not displayed in the financial statements.

For the state of Texas, routine transfers are those transfers from unrestricted revenue collected in the general revenue fund to finance various programs accounted for in other funds in accordance with the General Appropriation Act, which is the primary budget document for the state of Texas. Other transfers are legally authorized by statute to move resources from one fund to another. The noncurrent interfund receivables/payables include loans for energy efficiency programs of approximately $12.5 million. There is also a $367.9 million receivable for Texas A&M System from the University of Texas System from permanent university funds. The earnings will be used for bond payments. Significant transfers include a $980.7 million transfer from lottery earnings to the foundation school fund for educational programs and a $716.5 million transfer from the permanent school fund to the available school fund. There was also a $2.3 billion transfer to the highway fund from the general revenue fund. The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2008, is shown on the following pages.

Interfund Receivables/Payables per the Fund Statements

(Amounts in Thousands)

Fund Type	Current		Noncurrent		Total	
	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
INTERFUND RECEIVABLES/PAYABLES WITHIN THE PRIMARY GOVERNMENT						
Governmental Funds						
General Fund	$ 3,050	$ 59	$ 12,510	$	$ 15,560	$ 59
Permanent School Fund	3				3	
Nonmajor Governmental Funds		420		2,104		2,524
	3,053	479	12,510	2,104	15,563	2,583
Proprietary Funds						
Colleges and Universities	14,685	17,315	367,945	378,351	382,630	395,666
Nonmajor Enterprise Funds	56				56	
	14,741	17,315	367,945	378,351	382,686	395,666
Total Interfund Receivables/Payables Within the Primary Government	$ 17,794	$ 17,794	$ 380,455	$ 380,455	$ 398,249	$ 398,249

Due From/Due To per the Fund Statements

(Amounts in Thousands)

Fund Type	Due From			Due To		
	Other Funds	Primary Government	Component Unit	Other Funds	Primary Government	Component Unit
DUE FROM/DUE TO WITHIN THE PRIMARY GOVERNMENT						
Governmental Funds						
General Fund	$ 22,313	$	$ 332	$1,061,788	$	$ 426
State Highway Fund	269,440			4,624		
Permanent School Fund	356			1,713		
Nonmajor Governmental Funds	83,974		63	73,706		
	376,083	0	395	1,141,831	0	426
Proprietary Funds						
Colleges and Universities	639,396		18	11,658		
Texas Water Development Board Funds				2,896		
Texas Department of Transportation Turnpike Authority	118			1,690		
Nonmajor Enterprise Funds	26,663			16,226		
Internal Service Fund	729			77,225		
	666,906	0	18	109,695	0	0
Fiduciary Funds						
Pension and Other Employee Benefit Trust Funds	247,715			40,128		
Private-Purpose Trust Funds	32					
Agency Funds	1,332			414		
	249,079	0	0	40,542	0	0
Total Due From/Due To Within the Primary Government	$1,292,068	$ 0	$ 413	$1,292,068	$ 0	$ 426
DUE FROM/DUE TO OUTSIDE THE PRIMARY GOVERNMENT						
Discretely Presented Component Units	$	$ 426	$	$	$ 413	$
Total Due From/Due To Outside the Primary Government	$ 0	$ 426	$ 0	$ 0	$ 413	$ 0
TOTAL DUE FROM/DUE TO			$1,292,907			$1,292,907

Internal Balances per the Government-wide Financial Statements

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
NONCURRENT ASSETS			
Internal Balances–Receivables	$ 10,406	$ (10,406)	$ 0
CURRENT LIABILITIES			
Internal Balances–Payables	$ 631,164	$ (631,164)	$ 0

Transfers In/Out per the Fund Statements

(Amounts in Thousands)

Fund Type	Transfers In Other Funds	Transfers Out Other Funds
Governmental Funds		
General Fund	$ 4,661,664	$ 12,057,410
State Highway Fund	3,727,027	88,032
Permanent School Fund		716,535
Nonmajor Governmental Funds	5,443,058	4,915,005
	13,831,749	17,776,982
Proprietary Funds		
Colleges and Universities	5,414,776	480,462
Texas Water Development Board Funds	4,235	9,846
Texas Department of Transportation Turnpike Authority	46,826	
Nonmajor Enterprise Funds	17,121	1,083,157
	5,482,958	1,573,465
Fiduciary Funds		
Pension and Other Employee Benefit Trust Funds	99,803	62,319
Private-Purpose Trust Funds	10	1,754
	99,813	64,073
Total Transfers In/Out	$ 19,414,520	$ 19,414,520

Transfers In/Out per the Government-wide Financial Statements

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	$(3,909,529)
Business-Type Activities	$ 3,909,529

Note 13

Fund Balances/Net Assets

A summary of the nature and purposes of governmental fund balances is shown in the table below by fund type at Aug. 31, 2008.

The classification of unreserved undesignated or unreserved designated fund balances for governmental funds is based on the function of the operation of the agencies within the funds. The fund balances of oversight agencies are classified as designated for general government.

The government-wide, proprietary and fiduciary restrictions are listed on the face of their statements of net assets. The government-wide statement of net assets reports $56.2 billion of restricted net assets for the primary government, of which $38.6 billion is restricted by enabling legislation.

Governmental Fund Balances – Reserved, Unreserved/Designated, Unreserved/Undesignated

(Amounts in Thousands)

MAJOR FUNDS	
General Fund – Reserved:	
Encumbrances	$ 1,478,793
Inventories	170,836
Imprest Accounts	3,730
Loans and Contracts	247,137
Interfund Receivables (Noncurrent)	12,510
Tax Receivables (Noncurrent)	424,524
Health and Human Services	133,651
	$ 2,471,181
General Fund – Unreserved	
Undesignated:	$ 8,183,985
State Highway Fund – Reserved:	
Encumbrances	$ 140,593
Inventories	106,751
Imprest Accounts	584
Loans and Contracts	248,305
	$ 496,233
State Highway Fund – Unreserved:	
Designated:	
General Government	$ 1,625
Transportation	330,527
Total Unreserved/Designated	332,152
Undesignated:	
General Government	$ (49,661)
Public Safety and Corrections	(253)
Total Unreserved/Undesignated	(49,914)
	$ 282,238
Permanent School Fund – Reserved:	
Encumbrances	$ 997
Loans and Contracts	1,160
Public School Support	25,225,028
	$ 25,227,185

NONMAJOR FUNDS	
Special Revenue Funds – Reserved:	
Encumbrances	$ 30,834
Inventories	437
Imprest Accounts	10
Loans and Contracts	1,122,173
	$ 1,153,454
Special Revenue Funds – Unreserved:	
Designated:	
General Government	$ 3,120,752
Regulatory Services	491,586
Health and Human Services	12,703
Natural Resources and Recreation	191,083
Education	88,048
Transportation	884,486
Public Safety and Corrections	6,825
Employee Benefits	90
Total Unreserved/Designated	$ 4,795,573
Special Revenue Funds – Unreserved/Undesignated:	
Undesignated:	
General Government	(7,172)
Education	(117,201)
Public Safety and Corrections	(431)
Total Unreserved/Undesignated	(124,804)
Total Special Revenue Funds - Unreserved	$ 4,670,769
Debt Service Funds – Reserved:	
Debt Service	$ 189,203

Concluded on the following page

Governmental Fund Balances – Reserved, Unreserved/Designated, Unreserved/Undesignated (concluded)

(Amounts in Thousands)

NONMAJOR FUNDS (continued)	
Capital Projects Funds – Reserved:	
Encumbrances	$ 116,689
Inventories	82
Capital Projects	197,535
	$ 314,306
Capital Projects Funds – Unreserved:	
Designated:	
Public Safety and Corrections	$ 563
Total Unreserved/Designated	563
Undesignated:	
General Government	1,818
Health and Human Services	(110,743)
Natural Resources and Recreation	6
Education	(35)
Public Safety and Corrections	(15,292)
Total Unreserved/Undesignated	(124,246)
	$ (123,683)

NONMAJOR FUNDS (concluded)	
Permanent Funds – Reserved:	
Education	$ 575,931
	$ 575,931
Permanent Funds – Unreserved:	
Designated:	
Permanent Health Fund	$ 560,520
Total Unreserved/Designated	560,520
Undesignated:	
General Government	9,829
Education	(6,070)
Total Unreserved/Undesignated	3,759
	$ 564,279
ALL GOVERNMENTAL FUNDS	
Reserved	$ 30,427,493
Unreserved/Designated	5,688,808
Unreserved/Undesignated	7,888,780
Total Fund Balances – Governmental Funds	$ 44,005,081

Note 14

Adjustments to Fund Balances/ Net Assets

During fiscal 2008 certain accounting changes and adjustments were made that required the restatement of fund balances or net assets as shown below and discussed on the following page.

Restatements to Fund Balances/Net Assets

(Amounts in Thousands)

	September 1, 2007, As Previously Reported	Restatements	September 1, 2007, As Restated
GOVERNMENTAL FUNDS AND GOVERNMENT-WIDE ACTIVITIES			
Major Funds:			
General Fund	$ 10,836,321	$ (12,881)	$ 10,823,440
State Highway Fund	12,198	29,403	41,601
Permanent School Fund	26,773,885		26,773,885
Total Major Funds	37,622,404	16,522	37,638,926
Nonmajor Funds:			
Special Revenue Funds	3,242,576	69,143	3,311,719
Debt Service Funds	145,165	48	145,213
Capital Project Funds	98,415	8,288	106,703
Permanent Funds	1,249,461		1,249,461
Total Nonmajor Funds	4,735,617	77,479	4,813,096
Total Governmental Funds	42,358,021	94,001	42,452,022
Governmental Activities:			
Capital Assets Net of Accumulated Depreciation	63,802,726	(12,836)	63,789,890
Long-Term Liabilities	(10,461,260)	(145,990)	(10,607,250)
Other Adjustments	2,280,704		2,280,704
Internal Service Fund	369,913		369,913
Total Governmental Activities	55,992,083	(158,826)	55,833,257
Total Governmental Funds and Government-wide Activities	98,350,104	(64,825)	98,285,279
PROPRIETARY FUNDS			
Major Funds:			
Colleges and Universities	36,835,169	(23,301)	36,811,868
Texas Water Development Board Funds	2,123,700		2,123,700
Texas Department of Transportation Turnpike Authority	805,452		805,452
Nonmajor Enterprise Funds	3,134,287	(435,214)	2,699,073
Total Proprietary Funds	42,898,608	(458,515)	42,440,093
FIDUCIARY FUNDS			
Pension and Other Employee Benefit Trust Funds	137,266,388		137,266,388
External Investment Trust Funds	16,452,983		16,452,983
Private-Purpose Trust Funds	3,282,605		3,282,605
Total Fiduciary Funds	157,001,976	0	157,001,976
Total Primary Government	298,250,688	(523,340)	297,727,348
Discretely Presented Component Units	516,547	435,753	952,300
Total Reporting Entity	$298,767,235	$ (87,587)	$298,679,648

Restatements by Activity

(Amounts in Thousands)

Restatements	Governmental Activities	Business-Type Activities	Component Unit	Total Restatements
A.	$ 2,340	$ (4,300)	$ (91)	$ (2,051)
B.	(12,836)	(18,920)	167	(31,589)
C.	(53,947)			(53,947)
D.	(382)	(435,295)	435,677	0
Total Restatements	$ (64,825)	$(458,515)	$435,753	$ (87,587)

A. These are miscellaneous restatements and other changes necessary to correct accounting errors in the prior period that resulted in the over or understatement of revenues and/or expenditures.

B. This restatement is for adjusting capital assets and accumulated depreciation.

C. This restatement relates to the adjustment for the Texas mobility fund and the state highway fund to eliminate accrued interest payable and related interest expense as well as to restore unamortized premiums, discounts and issuance costs.

D. These restatements recognize a change in the reporting of the Teacher Retirement System (TRS). Previously TRS was reported as part of the state of Texas primary government. TRS is now reported as a discrete component unit because TRS was determined to be a separate legal entity that does not provide services entirely or almost entirely to the state of Texas. Therefore, the beginning balances of TRS' governmental and proprietary activities were restated and moved to the component unit financial statements.

Note 15

Contingent Liabilities

The state has been named as a defendant in routine legal proceedings, which normally occur in governmental operations. The recurring pattern of such litigation is not likely to have a materially adverse effect on the state's revenues or expenditures. Potential claims have been classified into the following categories to facilitate disclosure.

Protested Tax Payments

As of Aug. 31, 2008, the state held protested tax payments of $118.4 million, the majority of which were held by the Texas Comptroller of Public Accounts. The taxes included state sales and use tax, franchise tax, insurance premium and maintenance taxes, surtaxes and various other fees under protest. In addition, plaintiffs have filed lawsuits seeking refunds for franchise, sales, insurance, motor vehicle sales and use and oil and gas production taxes totaling $708 million. Although the outcome of these cases cannot presently be determined, adverse rulings in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases with claims totaling $270.9 million have been filed that may affect the state. While the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Included are a number of lawsuits and claims that may be significant to individual state agencies. The Texas Department of Transportation faces a potential liability of $106.1 million from litigation and contractual claims. The Department of Family and Protective Services is potentially impacted from civil rights, discrimination and tort claims of $133.4 million.

Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes to be provided from remaining current bond proceeds, future bond proceeds and federal drawdowns.

The Texas Water Development Board has loan commitments totaling $1.4 billion as of Aug. 31, 2008.

Federal Assistance

The state receives federal financial assistance which is subject to review or audit by federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance as a result of the audits may become a liability of the state.

The Texas Department of Aging and Disability Services has potential federal funding deferrals totaling $60.2 million as of Aug. 31, 2008.

The Health and Human Services Commission Office of Inspector General and the Office of the Attorney General investigate allegations of overpayments to Medicaid providers. Until investigations are completed, the total amount of overpayments to providers are potentially subject to recovery (amounts associated with the "open case list") and may represent a corresponding potential liability for the federal share of these payments - about 60 percent of that total.

An actual liability is realized only after (a) a completed investigation substantiates an overpayment, and (b) the provider is notified of the results and given an opportunity to submit rebuttal or claims for offsets. The percent of total dollars on the open case list that are ultimately confirmed as overpayments cannot be reliably predicted. The state estimates the amounts that may become payable to the federal government will be immaterial to its overall financial condition.

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code Section 148 as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue and, therefore, limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Guaranteed Debt

At Aug. 31, 2008, $49.9 billion in debt had been guaranteed by the permanent school fund for 2,596 outstanding bond issues in 780 school districts in the state. Under state statute, payments by the permanent school fund on such guarantees are recoverable from the state of Texas. The $49.9 billion represents principal amount and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount also excludes bonds that have been refunded and released from the Bond Guarantee Program.

Partnerships

The University of Texas System (UT) has invested in certain limited partnerships. The partnership agreements commit UT to possible future capital contributions amounting to $2.9 billion as of Aug. 31, 2008. The Teacher Retirement System has $14.2 billion in remaining commitments for private equity domestic and international partnerships.

Note 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/Refunded/ Other Financing

State agencies and universities have issued $358.8 million in new bonds and commercial paper and $461.7 million in refunding bonds since Aug. 31, 2008. This is significantly less than fiscal 2007 due to the delay in issuing the Central Texas Turnpike Bonds and Texas Mobility Fund Bonds because of unfavorable market conditions. This routine activity finances state facilities, housing assistance programs, educational loans and refunds outstanding debt.

The state's bond financing has been affected by significant events and volatility in the financial markets. Some state entities including the Texas State University System

and the Texas Department of Transportation have opted to postpone issuing bonds until the financial climate is more favorable. Since the conclusion of fiscal 2008, adverse events in the financial markets led to a period where volatile and higher than historic interest rates were borne by the variable rate bonds for the Texas Department of Transportation. Additionally, the credit rating of a standby bond purchase provider was downgraded, which resulted in sustained higher than comparable market rates on the Texas Mobility Fund Series 2005-B variable rate bonds, as well as tenders and failed remarketing of a portion of those bonds outstanding. Remedies to resolve the status of the bank held bonds are being pursued and are expected to be successful due to the high quality of the underlying general obligation credit rating of the state of Texas that the bonds bear.

On Sept. 29, 2008, DEPFA Bank was downgraded to a BBB rating by the rating agencies. DEPFA Bank is the liquidity provider for the Department of Housing and Community Affairs (Department) 2006H Single Family and 2007A Single Family variable rate demand bonds. A bond holder may tender these bonds for repurchase prior to maturity. On Oct. 2, 2008, these bonds were downgraded from A-1 to A-2 by Standard & Poor's rating agency. Upon the downgrade these bonds were no longer eligible investments in tax-exempt money market funds; therefore, the Department began to receive tender notices on these bonds. Once the remarketing of the bonds was unsuccessful, DEPFA Bank acquired temporary ownership of the "bank bonds" until the Department is able to get a new liquidity provider and subsequently have the bonds upgraded in rating.

Lehman Brothers, Inc. is owned by Lehman Brothers Holding, Inc., which filed for Chapter 11 bankruptcy protection on Sept. 15, 2008. On Sept. 26, 2008, two interest rate swaps with Lehman Brothers Derivative Products, Inc. on the State of Texas Veterans Housing Assistance Program, Fund II Series 2004A Bonds and the State of Texas Veterans Housing Assistance Program, Fund II Series 2005B Bonds were terminated. On Oct. 14, 2008, the Veterans Land Board replaced Lehman Brothers, Inc. with Goldman Sachs & Co. as the remarketing agent for the State of Texas Veterans Housing Assistance Bonds, Series 1994A-1; the State of Texas Veterans Housing Assistance Program, Fund II Series 2004A Bonds; and the State of Texas Veterans Housing Assistance Program, Fund II Series 2005B Bonds. The Texas Comptroller of Public Accounts notified Lehman that the marketing and client services contract provided by Lehman Brothers, Inc. was terminated effective Oct. 17, 2008. The marketing and client services previously provided by Lehman Brothers, Inc. under the contract were transferred by the Texas Safekeeping Trust Company to Federated Investors, Inc.

The General Land Office (GLO) and Veterans Land Board issued $50 million State of Texas Veterans Housing Assistance Program, Fund II Series 2008B Bonds on Sept. 11, 2008. The Series 2008B Bonds were issued to augment Veterans Housing Assistance Fund II.

Texas Public Finance Authority (TPFA) issued $10 million of General Obligation Commercial Paper Notes, Series 2002A on Oct. 21, 2008. TPFA issued $2 million of Master Lease Commercial Paper Notes, Series 2003 on Oct. 15, 2008.

The Texas Water Development Board issued non-general obligation debt, self-supporting Refunding Bonds Series 2008B for $26.5 million for the purpose of refunding 1998A, DFUND program bonds and general obligation debt and Refunding Bonds Series 2008C (EDAP) for $34.2 million for the purpose of refunding 1998C EDAP program bonds on Jan. 6, 2009.

The Department of Agriculture on Sept. 18, 2008, refinanced $25 million in outstanding commercial paper. The commercial paper matured and was subsequently refinanced on Sept. 19, Sept. 26 and Oct. 2, 2008.

Stephen F. Austin University issued $10.2 million in Higher Education Fund bonds in December 2008. The university is also planning an issuance of Tuition Revenue Bonds, $13 million for a nursing center and $10 million for deferred maintenance for Feb. 1, 2009.

On Oct. 30, 2008, the University of Texas (UT) System Board of Regents issued $400.9 million in Permanent University Fund (PUF) Bonds, Series 2008A to refund $400 million of outstanding PUF Flexible Rate Notes, Series A. On Nov. 5, 2008, the UT System Board of Regents issued $238.6 million in Revenue Financing Sys-

tem Commercial Paper Notes, Series A to finance a variety of capital projects at various UT System institutions.

The Texas Department of Criminal Justice (TDCJ), in an effort to fund fiscal 2008 operational shortfalls primarily related to salaries, overtime, food, fuel and utility costs, requested approval from the Legislative Budget Board and the Office of the Governor to transfer appropriations totaling $22.5 million from fiscal 2009 to fiscal 2008 as per the guidelines set forth in the General Appropriations Act, 80th Legislature, Regular Session. The transfer of appropriations between years will result in a significant impact to fiscal 2009.

Pending approval from the Texas Board of Criminal Justice in December 2008, ownership of the Marlin VA Hospital will transfer from the Veterans Administration to the TDCJ to utilize as a medical facility.

In accordance with Section 204.123 of the Labor Code, in September 2008, taxes that had been deposited to the Employment Training Investment Act (ETIA) holding fund during fiscal 2008 were transferred to the Skills Development Appropriation and the governor's enterprise fund in the amounts of $20 million and $52.3 million, respectively. $17.4 million of the remaining balance is reserved for the training and stabilization fund.

Investments/Economic Environment

Subsequent to the Aug. 31 fiscal year end, the financial markets have in general experienced a significant decline in value due to the financial and credit crisis initiated by the subprime mortgage meltdown. This resulted in substantial declines in equity, fixed income and commodities markets in which the state invests directly, and indirectly, through its investments in various hedge funds, private investments and public markets. The financial results of the state are impacted by market volatility and therefore the state's investments have been negatively impacted as a result of these market conditions. Since the global financial markets are highly dynamic and change in value daily, the value of the state's various investment portfolios change every day.

The state's overriding investment philosophy continues to center on proven principles of diversification and the search for long-term value. The state's investment portfolios are well diversified across asset classes; however, the declines after Aug. 31 had negative impacts on almost every investment asset class. A risk remains that continued uncertainty in the markets may lead to additional equity declines. This period, however, also will provide opportunities to acquire assets at substantial discounts that will benefit returns over longer investment cycles.

The largest investment portfolios of the state that have been affected by the market volatility are those held by the Teacher Retirement System (TRS), the Employee Retirement System (ERS), the University of Texas System (UT) and the Texas Education Agency (TEA). As of Dec. 31, 2008, the investment portfolios have declined significantly. As reported by the custodian of the funds, TRS had declined $23.2 billion or 22.5 percent; ERS had declined $4.6 billion or 20.8 percent; UT Permanent University Fund had declined $2.5 billion or 22.3 percent; and TEA Permanent School Fund had declined $5.2 billion or 22.8 percent since Aug. 31, 2008.

Hurricane Ike

On Sept. 13, 2008, a catastrophic disaster impacted the state of Texas when Hurricane Ike, a Category 2 hurricane, struck the southeast Texas coast, causing massive losses to Texas structures and property as well as economic dislocations for Texans. By Nov. 1, 2008, initial unemployment claims from Texans who had lost their job as a result of Hurricane Ike exceeded 111,000 and unemployment benefit payments arising from these claims were approximately $21 million. The financial impact of the disaster was estimated at over $29 billion in the Annual Financial Report for the Office of the Governor submitted in late November 2008. Private and corporate donations in excess of $3 million were received by the Texas Disaster Relief Fund, a nonprofit corporation, and will be distributed during fiscal 2009 to assist with Hurricane Ike relief efforts.

Pursuant to the Texas Administrative Code (TAC) and the Funds Management Agreement (FMA), the Commissioner of Insurance authorized the transfer of all funds in the Catastrophe Reserve Trust Fund to the Texas Windstorm Insurance Association for the payment of losses

as defined by the FMA and the TAC. The approximate amount of transfer was $370 million.

Numerous state entities were affected by Hurricane Ike. The state is still accumulating data from state entities in an effort to assess the damage caused by the hurricane. Details for some of the entities impacted are addressed in the following paragraphs.

The TDCJ responded to Hurricane Ike by providing evacuation transportation to approximately 5,900 offenders incarcerated at nine coastal correctional facilities and approximately 1,100 high risk parolees from coastal counties. In addition to the cost of transportation, the TDCJ incurred costs related to overtime, fuel and maintenance and repair. Estimated operational costs related to this event are $18 million.

Texas parks on the Texas coast suffered significant losses led by Galveston Island and Sea Rim. On Galveston Island there was extensive beach erosion, loss of headquarters, restrooms, shelters, vehicles and some roads. At Sea Rim in Jefferson County, water has receded but with over 400 feet of beach lost. All park buildings are a total loss. Cost estimates for these two locations top $83.8 million with losses at other locations totaling about $15.5 million.

Cost estimates for the Health and Human Services Commission (HHSC) for Hurricane Ike exceed $340 million. After federal dollars are taken into account, the state share is almost $100 million. The majority of this cost relates to HHSC client services for Other Needs Assistance (individual and household programs) and Medicaid Acute Care. It is unknown if additional federal dollars will be available for some of the state's costs.

The Department of State Health Services (DSHS) provided a number of services, including but not limited to: ambulances for evacuation, shelters for individuals with special needs, medical staffing, medical supplies, crisis counseling and vector control for mosquitoes. The DSHS cost for the response is estimated to be $27 million.

The Texas Department of Public Safety (DPS) incurred an estimated cost to the agency from Hurricane Ike of between $15 million and $20 million for response expenses for travel, salary, supplies and flight time as well as damage to buildings and equipment. DPS anticipates federal reimbursement of $10 million to $15 million.

Hurricane Ike made landfall at Galveston, Texas resulting in temporary closures of University of Texas Health Science Center at Houston (UT-HSC Houston) and University of Texas M.D. Anderson Cancer Center (UT MD Anderson) and closure of a significant portion of University of Texas Medical Branch at Galveston (UTMB Galveston) for an undetermined period of time. Physical structures at UT-HSC Houston and UT MD Anderson sustained property damage of up to $10 million. UTMB Galveston sustained significant physical damage and loss of patient care activity. Costs for protecting and restoring facilities, replacement of infrastructure and equipment and evacuation and relocation, together with loss of revenue, may exceed $700 million based upon preliminary estimates. UTMB Galveston is implementing restored operations for all of research and education, and a portion of the clinical activity. Clinical activity restoration will take an extended period of time due to the extent and nature of damages to related facilities.

The UT System maintains property insurance coverage through its comprehensive property protection plan. Losses (including business interruption) due to named windstorms are covered up to $100 million under a commercial insurance policy subject to a $50 million deductible. Underlying National Flood Insurance Program and Texas Windstorm Insurance Association policies provide up to $10 million in additional insurance recovery. Preliminary estimates for loss of revenue resulting from Hurricane Ike approximate $300 million. In December 2008, the United States Federal Emergency Management Agency (FEMA) obligated almost $39 million to the state of Texas as an advance on reimbursing repairs to UTMB Galveston. Hurricane Ike will result in a permanent impairment of capital assets for UTMB Galveston. It is unknown at this time if UT-HSC Houston and UT MD Anderson will have permanent impairment of capital assets.

As a result of the financial losses stemming from Hurricane Ike, on Nov. 12, 2008, the UT System Board of Regents ordered layoffs of approximately 3,800 employees at UTMB Galveston. The university employs more than

12,000 people who have been on the payroll since Hurricane Ike struck Galveston. With UTMB Galveston's hospital largely shut down, the university's expenses have exceeded revenues by $40 million a month and reserves will be exhausted shortly. The affected employees were carried on the payroll until mid-January of 2009.

Component Unit

Subsequent to fiscal year end, the Texas State Affordable Housing Corporation made a decision to cancel the Single Family Drawdown Program. All outstanding bonds in the Drawdown Program were expected to be redeemed prior to Jan. 1, 2009.

Note 17

Risk Management

It is the policy of the state and its agencies to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. The state is not involved in any risk pools with other governmental entities.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported.

For workers' compensation and unemployment compensation claims, the state is generally self-insured and funds such liabilities on a pay-as-you-go basis. The state assumes substantially all risks associated with tort claims and liability claims against the state or its agencies due to conditions of property, vehicles, aircraft or watercraft.

The Texas Employees Group Benefits Program (GBP), provides health, life, accidental death and dismemberment (AD&D), disability and dental insurance coverage to state and higher education employees, retirees and their dependents. Coverage is provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, health maintenance organization (HMO) contracts and dental health maintenance organization (DHMO) contracts. Effective Sept. 1, 1992, the Employees Retirement System of Texas (ERS) implemented a self-funded managed care health plan, HealthSelect of Texas. The managed care arrangement includes provider fee negotiations and utilization management. HealthSelect is administered by Blue Cross and Blue Shield of Texas, Inc.

The administrative contract involves no transfer of risk to the administrator. The state's Group Insurance Fund retains all risk under HealthSelect. The GBP also includes HMOs to provide health care services in lieu of coverage under HealthSelect. There is a full transfer of risk to the HMOs. The state retains no risk beyond the payment of premiums. The life, AD&D and disability insurance coverages are administered by Group Life and Health (the carrier), a division of Fort Dearborn Life Insurance Company. The carrier, not the fund, is liable in the event claims exceed the claims portion of premium. The AD&D insurance is fully insured. The ERS approved two dental plans for fiscal year 2008, a dental health maintenance organization (DHMO) administered by Aetna Dental, Inc., and a dental indemnity plan administered by the Government Employees Hospital Association (GEHA). The DHMO is fully insured with all risk transferred to Aetna Dental, Inc. Beginning Sept. 1, 1997, the dental indemnity plan became self-funded by ERS with all risk retained by the Group Insurance Fund.

The 77th Texas Legislature enacted the Texas School Employees Uniform Group Health Coverage Act, establishing a statewide health coverage program for public school employees and their dependents. The Teacher Retirement System administers this program. Enrollment commenced in September 2002. The plan includes employees of most small to mid-size districts, charter schools, education service centers and certain other employers. The risk associated with this plan is retained by the plan's participants, and no risk is transferred to the plans administrators or to the state.

A number of state universities have self-insurance plans providing various coverages in the areas of workers' compensation, unemployment compensation, employee health and medical malpractice on a funded or pay-as-you-go basis. Liabilities are reported when it is probable

that a loss has occurred and the amount of that loss can be reasonably estimated. Estimates of liabilities for incurred (both reported and unreported) but unpaid claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends and any other factors that would modify past experience. There have been no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years.

The following table presents the changes in claims liability reported in various balance sheet/statement of net assets liability accounts for the general fund government-wide governmental activities, enterprise funds, internal service fund and colleges and universities during fiscal years ending Aug. 31, 2007, and Aug. 31, 2008. Claims and Judgment amounts presented in Note 5 (Long-Term Liabilities) are also included in the table.

Changes in Claims Liability Balances

(Amounts in Thousands)

	Beginning Balance	Increases	Decreases	Ending* Balance
2008	$717,883	$1,982,250	$1,983,073	$717,060
2007	$810,226	$1,716,867	$1,809,210	$717,883

* The ending balance includes both short-term and long-term claims. Long-term claims are reported as claims and judgments (current and noncurrent liabilities), which are included in Note 5 (long-term liabilities). Short-term claims payable, the majority of which relate to claims filed for the state's Group Benefits Program, are included as accounts payable in the statement of net assets and are not included in Note 5.

Note 18

Contested Taxes

Taxpayers may petition for a formal hearing before an independent administrative law judge if they wish to challenge a tax liability assessed by the state. If the request for a determination hearing is received within a specified time, the taxpayer does not have to pay the tax until a final decision is reached. Collectability of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements. As of Aug. 31, 2008, the redetermination hearings process had an estimated amount of $657 million.

Note 19

Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government is such that exclusion would cause the reporting entities financial statements to be misleading or incomplete. In addition, component units can be organizations that raise and hold economic resources for the direct benefit of a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. Most component units, however, are discretely presented. None of the component units for the state of Texas meet the criteria for major component unit presentation and those presented are for information purposes of interested parties. The component units are reported for the year ended Aug. 31, 2008, unless indicated otherwise.

Blended Component Units

The state is financially accountable for the following material blended component units. These component units are reported as if they are part of the primary government because they provide substantially all of their services directly to the state. The component unit's financial data is blended in the appropriate funds within the financial statements. There are no other material blended component units of the state.

Employees Retirement System of Texas (ERS) is a legal entity established by the Legislature to administer benefits for officers and employees of the state. ERS is governed by a six member board of trustees. The governor, with the advice and consent of the Senate, appoints three of

the six members of the board of trustees. The state of Texas has the ability to impose its will upon ERS through its budget approval powers. Separate financial statements may be obtained by contacting the ERS at P.O. Box 13207, Austin, Texas 78711.

Texas Treasury Safekeeping Trust Company (Texas Trust) is a legally separate entity established by the Legislature. The Comptroller of Public Accounts is the single shareholder of the Texas Trust and is charged with managing the Texas Trust. The Texas Trust is authorized to manage, disburse, transfer, safekeep and invest funds and securities provided by statute or belonging to state and local entities and gives the Comptroller direct access to services provided by the Federal Reserve System. Separate financial statements may be obtained by contacting the Texas Trust at 208 E. 10th St., 4th Floor, Austin, Texas, 78701.

Discretely Presented Component Units

The state is financially accountable for the following legally separate entities (component units); however, the units do not provide services entirely or almost entirely to the state. The component unit's financial data is discretely presented in the component unit column of the state's financial statements.

Teacher Retirement System (TRS) is a legally separate entity established by the Legislature to administer retirement and disability annuities to employees and beneficiaries of public school systems, colleges and universities of Texas. TRS is governed by a nine member board of trustees, three of whom are direct appointments of the governor. The remaining trustees are appointed by the governor from lists prepared by various constituent groups. The state of Texas has the ability to impose its will on TRS through its budget approval powers. Separate financial statements may be obtained by contacting TRS at 1000 Red River Street, Austin, Texas 78701.

State Bar of Texas is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The state of Texas has the ability to impose its will upon the State Bar through its budget approval powers. The State Bar is reported for the year ended May 31, 2008. Separate financial statements may be obtained by contacting the State Bar of Texas at 1414 Colorado St., Austin, Texas 78701.

Texas Agricultural Finance Authority (Authority) is a legally separate entity within the Texas Department of Agriculture (TDA) and is financially accountable to the state. The governor, with the advice and consent of the Senate, appoints seven of the nine members of the board of directors. The commissioner of TDA administers the Authority with the assistance of the board. The Authority was created to provide financial assistance for the expansion, development and diversification of agricultural businesses. The Authority primarily benefits the citizens of Texas. If there are insufficient funds to pay the Authority's bond obligations, the primary government shall transfer money from the state treasury to the Authority in an amount sufficient to pay those obligations. Separate financial statements may be obtained by contacting the TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas On-Site Wastewater Treatment Research Council (Council) awards competitive grants and contracts to support applied research, demonstration projects and information transfer regarding on-site wastewater treatment. The Council is not an advisory council and does not regulate the on-site wastewater industry in the state of Texas. The Council is a component unit due to its fiscal dependency on the Texas Commission on Environmental Quality (TCEQ). The Council's fiscal operations (revenues, budget, expenditures and administration) are maintained by TCEQ. In order to emphasize that the Council is a legally separate entity, its financial information is presented in a separate column in the TCEQ combined financial statements.

Texas Appraiser Licensing and Certification Board (TALCB) was statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) and is a legally separate entity from the primary government. The governor appoints the members of the board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TALCB is not fiscally dependent on TREC, to exclude it would result in presentation of incomplete finan-

cial statements. TALCB serves the real estate community in Texas. Financial statements can be obtained by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc. (Foundation) is a legally separate entity created to provide prepaid tuition scholarships to students meeting economic or academic requirements. The Foundation is a direct-support organization of the prepaid tuition program and is authorized by Section 54-633 of the Texas Education Code. The Foundation is governed by a board composed of the Comptroller of Public Accounts, a member appointed by the governor with the advice and consent of the Senate and three members appointed jointly by the Comptroller and the member who is appointed by the governor. The state of Texas is financially accountable for the Foundation through board appointment and through the Comptroller serving as custodian of the assets of the Foundation. Separate financial statements may be obtained by contacting the Texas Comptroller of Public Accounts, Texas Guaranteed Tuition Plan at 111 E. 17th Street, Austin, Texas 78774.

Texas Guaranteed Student Loan Corporation (Corporation) is a public nonprofit corporation that guarantees loans made to eligible students under the federal guaranteed student loan program. The state of Texas is financially accountable for the Corporation through board appointment and imposition of will. All members of the Corporation's board are appointed by the governor with the advice and consent of the Senate. The Corporation's liabilities are not debts of the state. The Corporation received a one-time appropriation of $1.5 million to fund initial startup operations. The Corporation is reported for the year ended Sept. 30, 2008. Separate financial statements may be obtained by contacting the Corporation at P.O. Box 201725, Austin, Texas 78720-1725.

Texas Boll Weevil Eradication Foundation, Inc. (Foundation) was created by Senate Bill 30, 73rd Legislature, 1993 (now codified at Texas Agriculture Code, Chapter 74, Subchapter D). The Foundation establishes and implements a boll weevil eradication program for Texas. It is a legally separate entity, fiscally dependent on the TDA and governed by sixteen board members. TDA's commissioner appoints eight of the board members. TDA approves the Foundation's budget, assessment fees and debt. The Foundation is reported for the year ended Dec. 31, 2007. Separate financial statements may be obtained by contacting the TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Water Resources Finance Authority (Authority) was created by the Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects. A board of directors, composed of the six members of the Texas Water Development Board (TWDB), governs the Authority. The members of the TWDB are appointed by the governor. TWDB, through a sales and servicing agreement, wholly manages the Authority's operations. Prior to any bonds being issued by the Authority, the issuance must be reviewed by the Bond Review Board, which is composed of the governor, lieutenant governor, speaker of the house of representatives and the Comptroller of Public Accounts. Financial statements may be obtained by contacting the TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

Texas Small Business Industrial Development Corporation (TSBIDC) was chartered in 1983 under the Development Corporation Act of 1979 to promote economic development in the state of Texas. The Office of the Governor is the oversight agency for the TSBIDC and is its reporting entity. The board of directors is appointed by the governor, and all programs and expenditures of the TSBIDC must be approved on behalf of the state by the Texas Economic Development Bank. TSBIDC's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Economic Development Corporation (TED Corp), a nonprofit corporation, was created in 1991 under the provisions of the Texas NonProfit Corporation Act to assist, promote, develop and advance economic development in the state of Texas. The Office of the Governor is the oversight agency for the TED Corp and is its reporting entity. The board of directors is appointed by the governor. The entity's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contact-

ing the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Disaster Relief Fund (TDRF), a nonprofit corporation, was established to help the Office of the Governor provide disaster relief. The chief of staff, director of homeland security and the chief financial officer of the Office of the Governor serve as initial directors and will change only when these positions change. The services provided by TDRF assist the Office of the Governor in responding to the needs of the citizens before, during and after a disaster in Texas. TDRF's financial statements for the fiscal year ended Aug. 31, 2008, may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Surplus Lines Stamping Office of Texas (Stamping Office) is a nonprofit corporation created by the Legislature to assist the Texas Department of Insurance (TDI) in the regulation of surplus lines insurance. TDI's commissioner appoints the board. The Stamping Office performs its functions under a plan of operation approved by order of TDI. The Stamping Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Stamping Office. The state of Texas has the ability to impose its will upon the Stamping Office through the approval of the assessment rate that funds its operations. The Stamping Office is reported for the year ended Dec, 31, 2007. Separate financial statements may be obtained at P.O. Box 160170, Austin, Texas 78716-0170.

Texas Health Reinsurance System reinsures risks covered under the health benefit plans of small employers' insurance carriers. TDI's commissioner appoints, supervises and controls the nine-member board. The state of Texas has the ability to impose its will through TDI commissioner approval of base reinsurance premium rates and the assessment rates against reinsured health benefit plan issuers. Financial statements may be obtained at 100 Great Meadow Rd., Suite 704, Wethersfield, Connecticut 06109.

Texas Health Insurance Risk Pool provides access to quality health care at a minimum cost to the public for those unable to obtain traditional health care coverage. The TDI approves all rates and rate schedules before they are used. The board of directors, composed of nine members, is appointed by TDI's commissioner. Financial statements may be obtained at 1701 Director's Blvd., Suite 120, Austin, Texas 78744.

Texas State Affordable Housing Corporation (TSAHC) was incorporated under the Texas NonProfit Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income Texans, professional educators, firefighters and police officers who are first-time home buyers and are not afforded housing finance options through conventional lending channels. TSAHC operates under the name Texas Star Mortgage to provide single and multifamily loans to low-income Texans. Although a separate entity from the state, there is a statutory link between the state and TSAHC as it issues bonds. Because of this link, TSAHC is included in the state's CAFR as a discretely presented component unit. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 12637, Austin, Texas 78711-2637.

Texas Health Services Authority (THSA) was created by House Bill 1066, 80th Session to assist the Office of the Governor support the improvement of the Texas health care system. The THSA promotes and coordinates the electronic exchange of health information throughout the state to ensure that information is available to health care providers and to improve patient safety and quality of care. The board of directors consists of 11 members and is appointed by the governor, with the advice and consent of the Senate. The state of Texas has the ability to impose its will upon THSA through the ability of the governor to order the dissolution of THSA at any time the governor delares the purposes of THSA have been fulfilled or that THSA is inoperative or abandoned. As of Aug. 31, 2008, THSA did not have any financial activity.

Related Organizations

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, but the state is not financially accountable for the entity.

Life, Accident, Health and Hospital Service Insurance Guaranty Association (Association) was created for the protection of persons against failure in the performance

of contractual obligations under life, accident and health insurance policies and annuity contracts, because of the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's commissioner appoints a board of directors of the Association consisting of nine members.

Texas Title Insurance Guaranty Association was created for the purpose of providing funds for the protection of holders of "covered claims," as defined in Article 9.48 of the Texas Insurance Code. This applies to all title insurance written by title insurance companies authorized to do business in Texas. The nine-member board of directors is appointed by TDI's commissioner.

Texas Mutual Insurance Company (Texas Mutual) was created by House Bill 3458. It was previously known as the Texas Workers' Compensation Insurance Fund and reported as a discretely presented component unit. Texas Mutual operates as a domestic mutual insurance company providing workers' compensation insurance in the state of Texas and also serves as the insurer of last resort. It is legally separate and fiscally independent of the state, but the state appoints a voting majority of the Texas Mutual's board.

Midwestern State University Charitable Trust is a nonprofit organization with the sole purpose of educational and other activities of Midwestern State University. It is governed by a five-member board of trustees. This board appoints individuals to fill vacancies on the board as they occur.

River Authorities are political subdivisions that are created by Texas statute. The Texas Constitution, Article XVI, Section 59, authorizes the Legislature to create districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes the control, storing, preservation and distribution of its storm and flood waters, the waters of its rivers and streams, for irrigation, power and all other useful purposes; the reclamation and irrigation of its arid, semiarid and other lands needing irrigation; the reclamation of drainage of its overflowed lands and other lands needing drainage; the conservation and development of its forests, water and hydro-electric power; the navigation of its inland and coastal waters and the preservation and conservation of all such natural resources of the state. The state of Texas has voting majority for the following 15 river/water authorities:

- Angelina and Neches River Authority
- Brazos River Authority
- Central Colorado River Authority
- Guadalupe-Blanco River Authority
- Lavaca-Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley River Authority
- Nueces River Authority
- Red River Authority
- Sabine River Authority
- Sulphur River Basin Authority
- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches Municipal Water Authority

Note 20

Deficit Fund Balances/Net Assets

A. Primary Government

Governmental Funds

The **State Textbook Fund**, a nonmajor special revenue fund, reported a deficit of $117.2 million. This is the result of $130.6 million in payments owed to textbook vendors at Aug. 31, 2008, that will be paid out of fiscal 2009 appropriations.

The **Texas Health Agencies Project Funds**, a set of related funds categorized as a nonmajor capital projects fund, reported a deficit of $38.2 million. This deficit is primarily due to the commercial paper funding mechanism used for these projects. Because of arbitrage rebate guidelines, commercial paper is issued only to fund what is anticipated to be expended in the near future. The agencies, however, encumber balances related to long-term contracts. Prior year renovation costs also contributed to this deficit. Monies were advanced from the LoanStar program for renovating the electrical systems of various Texas Health and Human Services agencies. Future savings in utility costs will be used to repay the loans to the State Energy Conservation Office.

Proprietary Funds

The **Texas Prepaid Higher Education Tuition Board**, a nonmajor enterprise fund, reported a deficit of $206.3 million. This deficit was caused by the impact of a lower than expected return on investments in fiscal 2008 and a change in the investment return and tuition increase assumptions for future years. The assumptions for investment returns in future years were lowered, but the impact of that change was partially offset by a reduction in the assumption for future tuition increases.

B. Discretely Presented Component Units

The Texas Boll Weevil Eradication Foundation, Inc., a component unit of the Texas Department of Agriculture, reported a deficit unrestricted net assets of $15.9 million. This is a result of incurring debt during the early years of the eradication program that resulted in a decrease in unrestricted net assets on the statement of activities and an unrestricted deficit on the statement of net assets. Although this "loss" was incurred during the initial operations of the program, management expects an increase in net assets in later years to offset this loss.

Note 21

Tobacco Settlement

The state of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total $15.1 billion over the first 25 years of the agreement. The actual amounts of the annual payments are subject to adjustments for domestic tobacco sales, inflation and any other court-ordered factors; however, the tobacco companies have no obligation to make settlement payments until cigarettes are shipped (sales). Since annual payments are based on cigarette sales from the preceding calendar year, a revenue accrual of $324.8 million has been calculated on estimated sales from Jan. 1 to the end of the fiscal year. Tobacco settlement revenues were $503 million in fiscal 2007 and $520.1 million in fiscal 2008. Cumulative actual tobacco settlement revenues as of fiscal 2008 were $5.7 billion.

Note 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of $23.4 billion on investments that are available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported in net assets can be found in the donor-restricted endowments schedule on the following page. True endowments require the principal to be maintained inviolate and in perpetuity. Term endowments allow the principal to be expended after the passage of a stated period of time and all conditions of the endowment have been met. Expendable funds are those funds that may be expended for either a stated purpose or for a general purpose as per the endowment gift terms. Nonexpendable funds are those that are required to be retained in perpetuity. The policies of each individual state agency govern the authorizing and spending of net appreciation on endowment investments.

Each endowment fund is evaluated to allocate their restricted net assets between expendable and nonexpendable. The permanent school fund (PSF) and permanent university fund (PUF) account for the majority of the donor-restricted endowment funds reported by the state. The PSF and PUF each consider historical oil and gas contributions from endowment lands as nonexpendable net assets. The PUF also considers the reported value of the land as nonexpendable net assets. The PSF does not include the value of its land in calculating nonexpendable net assets as the land is considered investment property and not part of the original corpus of the endowment. The remaining restricted net assets of each endowment are classified as expendable.

The Uniform Prudent Management of Institutional Funds Act, Property Code - Chapter 163, provides general guidelines on how endowments should be maintained for higher education institutions. Each institution sets the

amounts and/or percentages that are authorized for expenditure in its spending plan; however, the PSF and PUF are governed by provisions of the Texas Constitution. Distributions made by the PSF and PUF endowments to the available school fund (ASF) and available university fund (AUF), respectively, are made using a total return methodology. The ASF distribution should not exceed the lesser of 6 percent or the total return on all investment assets over the current year and proceeding nine years. The AUF distribution should not exceed 7 percent of the average net fair value of investment assets.

Donor-Restricted Endowments

(Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Assets
True Endowments	$23,383,426	Expendable
Term Endowments	33,790	Expendable
	$23,417,216	

Note 23

Extraordinary and Special Items

The state did not report extraordinary items in the current fiscal year. Extraordinary items, as defined in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, are transactions or other events that are both unusual in nature and infrequent in occurrence.

The state reported a special item equal to $150 million in the current fiscal year. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. At Oct. 1, 2007, the unemployment compensation trust fund exceeded the statutorily mandated ceiling of 2 percent of taxable wages. This required the refunding of surplus tax credits to eligible employers based on tax returns filed during the 2008 calendar year. Tax refunds of $150 million applied to 260,000 employers who had paid taxes into the unemployment compensation trust fund.

Note 24

Taxes Receivable

Taxes receivable represent amounts due to the state at Aug. 31, 2008, for revenues earned in the current fiscal year that will be collected in the future. Amounts expected to be collected in the next fiscal year are classified as "current" and amounts expected to be collected beyond the next fiscal year are classified as "noncurrent." The receivables have been recorded net of allowances for uncollectible accounts. Revenue is recorded on the governmental fund financial statements using the modified accrual basis of accounting for amounts due to the state of Texas at Aug. 31, 2008, that are considered "available" (e.g. received by the state within approximately 60 days after that date). Revenue earned but not "available" at Aug. 31, 2008, is recorded as deferred revenue. Prepaid taxes are also recorded as deferred revenue.

On the government-wide financial statements, a corresponding amount is recorded as revenue using the accrual basis of accounting, which includes revenue earned at fiscal year end regardless of its availability. Deferred revenue includes only the prepaid taxes that have not been earned by fiscal year end. Taxes receivable are the same for both modified and full accrual bases.

Taxes receivable, as reported in the general fund on the balance sheet – governmental funds, are detailed by tax type as follows.

Taxes Receivable by Tax Type

August 31, 2008 (Amounts in Thousands)

Tax Type	Net Taxes Receivable
Sales and Use Tax	$1,443,039
Motor Vehicle and Manufactured Housing	131,053
Motor Fuels	133,798
Franchise	1,354,404
Oil and Natural Gas Production	322,253
Insurance Occupation	117,993
Cigarette and Tobacco	7,682
Other	206,565
Total Net Taxes Receivable	$3,716,787
Liquidity Characteristics:	
Current Taxes Receivable	$3,292,262
Noncurrent Taxes Receivable	424,525
Total Net Taxes Receivable	$3,716,787

COBRA Benefits

Fiscal 2008 Summary Benefits Provided Through:	Number of Participants	Amounts in Thousands: Premium Revenue	2 Percent Administrative Fee Revenue	Claims Paid	Cost to State
Employees Retirement System	2,138	$ 8,175	$ 163	$22,895	$14,557
University of Texas System	1,203	4,558	90	8,363	3,715
Texas A&M University System	251	740	15	1,499	744
Total	3,592	$13,473	$ 268	$32,757	$19,016

Note 25

Termination Benefits

Healthcare-Related Termination Benefits

Health care continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. The COBRA members are eligible to remain in their eligible insurance program for 18 months or 29 months if disabled. Covered dependents are eligible to remain in the program for 36 months. The COBRA Plan administrators for the state include the Employees Retirement System of Texas, University of Texas System and Texas A&M University System.

The insurance carrier performs the billing and collections process for COBRA participants. The plan administrators collect 100 percent of the blended insurance premiums and a 2 percent administrative fee from each COBRA participant. However, since the plan is self-insured, the plan administrators are responsible for any claims or administrative costs associated with COBRA participants that exceed these payments. For fiscal 2008, the cost to the state was approximately $19 million for 3,592 COBRA participants.

For the fully-insured HMO health insurance plans, the insurance carrier retains all premiums and is liable for all claims and expenses. Premium and expense information is not available for these plans.

Non-Healthcare-Related Termination Benefits

There were no material non-healthcare-related voluntary or involuntary termination benefits accepted in fiscal 2008.

Note 26

Segment Information

Primary Government

Segments are separately identifiable activities reported as or within enterprise funds for which revenue bonds or other revenue-backed debt instruments are outstanding and for which related expenses, gains, losses, assets and liabilities can be identified. To qualify as a segment, an activity must also be subject to an external requirement to separately account for this revenue stream. The activities reported in the following financial information meet these requirements.

The State of Texas David A. Gloier State Veterans Home Program was created to provide long-term skilled nursing care for veterans, spouses of veterans and gold star parents of veterans of the state of Texas. The construction of the first four homes was funded by the issuance of revenue bonds, which require these homes' revenues, expenses, gains and losses, assets and liabilities to be separately accounted for and independently audited. The tables on the following page present the financial statements of the homes related to the revenue bonds.

Condensed Statement of Net Assets

(Amounts in Thousands)

	Veterans Homes Revenue Bonds
ASSETS	
Current Restricted Assets:	
Cash and Cash Equivalents	$ 3,721
Other Current Assets	3,736
Capital Assets, Net of Depreciation	29,025
Total Assets	36,482
LIABILITIES	
Current Liabilities	5,302
Noncurrent Liabilities	22,995
Total Liabilities	28,297
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	5,680
Restricted Net Assets	2,505
Total Net Assets	$ 8,185

Condensed Statement of Cash Flows

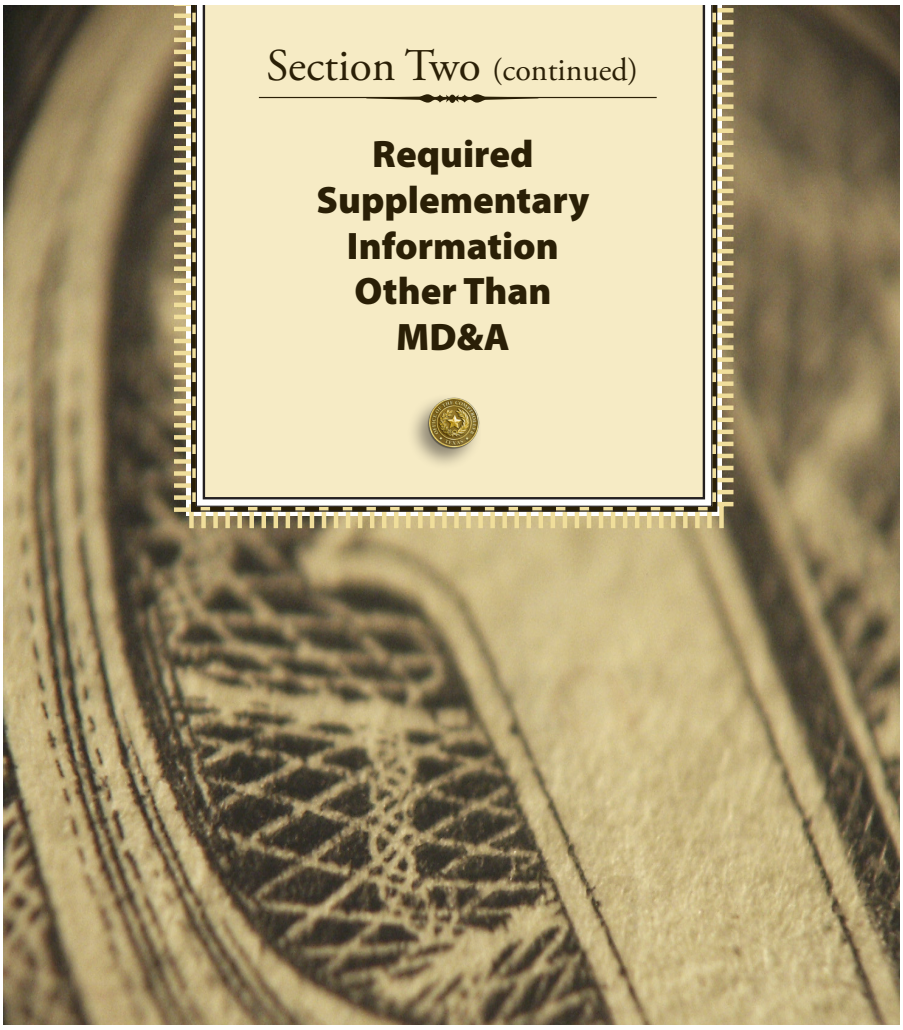
(Amounts in Thousands)

	Veterans Homes Revenue Bonds
NET CASH PROVIDED (USED) BY:	
Operating Activities	$ 3,400
Noncapital Financing Activities	(11,238)
Capital and Related Financing Activities	(1,809)
Investing Activities	1,246
NET DECREASE IN CASH AND CASH EQUIVALENTS	(8,401)
Cash and Cash Equivalents, September 1, 2007	12,122
Cash and Cash Equivalents, August 31, 2008	$ 3,721

Condensed Statement of Revenues, Expenses and Changes in Net Assets

(Amounts in Thousands)

	Veterans Homes Revenue Bonds
OPERATING REVENUES (EXPENSES)	
Sale of Goods and Services	$ 35,369
Other Operating Revenues	7
Operating Expenses	(34,937)
Net Operating Income	439
NONOPERATING REVENUES (EXPENSES)	
Other Nonoperating Revenues	481
Interest Expense	(1,478)
Net Nonoperating Revenues	(997)
OTHER TRANSFERS – TRANSFER OUT	(11,237)
Change in Net Assets	(11,795)
Net Assets, September 1, 2007	19,980
Net Assets, August 31, 2008	$ 8,185



Section Two (continued)

Required Supplementary Information Other Than MD&A

STATE OF TEXAS

Budgetary Comparison Schedule
General Fund

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts Budgetary Basis	Final to Actual Variance
	Original	Final		
REVENUES				
Taxes	$35,654,606	$36,423,499	$38,081,725	$ 1,658,226
Federal	21,350,697	24,417,600	22,734,688	(1,682,912)
Licenses, Fees and Permits	2,494,007	2,844,629	2,388,651	(455,978)
Interest and Other Investment Income	592,863	727,878	736,406	8,528
Land Income	10,530	10,585	19,389	8,804
Settlement of Claims	480,449	508,128	561,462	53,334
Sales of Goods and Services	985,785	1,296,001	1,325,618	29,617
Other	1,830,439	1,689,629	2,523,846	834,217
Total Revenues	63,399,376	67,917,949	68,371,785	453,836
EXPENDITURES				
General Government	4,567,589	3,476,415	1,666,345	1,810,070
Education	18,826,224	23,666,327	22,973,060	693,267
Employee Benefits	1,177,043	1,449	1,446	3
Teacher Retirement Benefits	1,780,757	1,780,757	1,780,757	
Health and Human Services	26,991,174	29,670,708	28,372,226	1,298,482
Public Safety and Corrections	3,542,699	4,445,543	4,138,279	307,264
Transportation	4,495	6,889	6,988	(99)
Natural Resources and Recreation	1,460,310	1,652,492	1,379,894	272,598
Regulatory Services	280,266	332,497	303,466	29,031
Total Expenditures	58,630,557	65,033,077	60,622,461	4,410,616
Excess of Revenues Over Expenditures	4,768,819	2,884,872	7,749,324	4,864,452
OTHER FINANCING SOURCES (USES)				
Transfer In	5,829,396	4,570,781	4,661,664	90,883
Transfer Out	(6,832,785)	(10,429,097)	(12,057,410)	(1,628,313)
Sale of Capital Assets	12,061	12,158	16,747	4,589
Insurance Recoveries	450	837	2,841	2,004
Available Beginning Balances	11,460,633	11,460,633	11,460,633	
Total Other Financing Sources (Uses)	10,469,755	5,615,312	4,084,475	(1,530,837)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	$15,238,574	$ 8,500,184	$11,833,799	$ 3,333,615

STATE OF TEXAS

Budgetary Comparison Schedule
Major Special Revenue Fund – State Highway Fund

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts Budgetary Basis	Final to Actual Variance
	Original	Final		
REVENUES				
Taxes	$ 38,908	$ 38,908	$ 38,908	$
Federal	3,076,789	3,560,785	5,827,788	2,267,003
Licenses, Fees and Permits	1,070,721	1,103,581	1,152,717	49,136
Interest and Other Investment Income	3,600	3,600	145,217	141,617
Land Income	3,702	3,702	5,910	2,208
Settlement of Claims	1,442	1,442	923	(519)
Sales of Goods and Services	179,736	230,860	293,192	62,332
Other	7,392	33,728	8,560	(25,168)
Total Revenues	4,382,290	4,976,606	7,473,215	2,496,609
EXPENDITURES				
General Government	21,372	23,210	12,210	11,000
Education	50,000	50,000	50,000	
Health and Human Services	10,000	10,000	10,000	
Public Safety and Corrections	582,929	671,447	681,838	(10,391)
Transportation	6,932,030	7,280,589	7,991,329	(710,740)
Total Expenditures	7,596,331	8,035,246	8,745,377	(710,131)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,214,041)	(3,058,640)	(1,272,162)	1,786,478
OTHER FINANCING SOURCES (USES)				
Transfer In	2,260,798	2,264,744	3,727,027	1,462,283
Transfer Out			(88,032)	(88,032)
Bond Proceeds*	1,404,840	1,404,840	1,408,940	4,100
Sale of Capital Assets	4,500	4,538	5,311	773
Insurance Recoveries	7,600	7,810	11,686	3,876
Available Beginning Balances	558,832	558,832	558,832	
Total Other Financing Sources (Uses)	4,236,570	4,240,764	5,623,764	1,383,000
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	$ 1,022,529	$ 1,182,124	$4,351,602	$ 3,169,478

* The state highway fund received $1.4 billion in bond proceeds. These are authorized by Article 3, Sec 49-n of the Texas Constitution and Section 222.003, Texas Transportation Code.

Note to Budgetary Comparison Schedule

The Budgetary Comparison Schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles (GAAP), a reconciliation of these differences is required and is presented below.

Reconciliation of Budgetary Basis to GAAP Basis

August 31, 2008 (Amounts in Thousands)

	General Fund	State Highway Fund
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	$ 11,833,799	$4,351,602
Basis of Accounting Differences:		
Receivables and Deferred Revenues	346,453	(3,081,430)
Payables	(669,521)	(3,554)
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Sources	(11,460,633)	(558,832)
Federal Program Revenues Not Budgeted	(3,969,175)	
Federal Program Expenditures Not Budgeted	3,969,175	
Other Revenues Not Budgeted	90,306	73,051
Other Expenditures Not Budgeted	(309,393)	(43,967)
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	715	
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – GAAP Basis	$ (168,274)	$ 736,870

The major reconciling items between the Budgetary Comparison Schedule actual and the GAAP financial statements are due to the following items.

Basis of Accounting Differences

Revenues and expenditures are reported on the cash basis of accounting in the Budgetary Comparison Schedule but are reported on the modified accrual basis on the GAAP financial statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

Perspective Differences

Certain revenues and expenditures, including debt service, the Federal Food Stamps Program and the disproportionate share portion of the Federal Medical Assistance program are not budgeted by the Legislature. The activity for these programs has been excluded from the Budgetary Comparison Schedule.

The beginning cash balances are included as other financing sources in the Budgetary Comparison Schedule. The beginning fund balances are not included as financing sources on the GAAP financial statements.

Entity Differences

Budgets are not established for sources from capital leases. These financing sources are not included in the Budgetary Comparison Schedule.

Excess of Actual Budgetary Basis Expenditures over Final Budget

General fund - the $99 thousand variance in transportation is due to expenditures made from beginning fund balance that are included in other financing sources.

Major special revenue fund - state highway fund - the $711 million variance in transportation is due to expenditures made, appropriated transfers-in and bond proceeds that are included in other financing sources. The $10 million variance in public safety and corrections is the result of expenditures being made from beginning cash balance in the fund.

Basis of Budgeting

The state's budget is prepared on a cash basis. The Texas Constitution limits appropriation bills to two years. The Legislative Budget Board (LBB) is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue,

not dedicated by the Texas Constitution, that is available for spending in the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and LBB initiate the process by submitting budget requests to the Legislature. At final passage of the Appropriations Bill by the Legislature, it is sent to the Comptroller for certification. If the Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation. Upon approval by the governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The Comptroller is responsible for controlling, accounting and reporting expenditures in accordance with the expenditure budgets.

Legal Level of Budgetary Control

The Texas Constitution requires the Comptroller to submit a *Biennial Revenue Estimate* to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect and estimated expenditures from prior appropriations. The Texas Constitution also requires the Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes.

The level of legal control for the budget is established at the strategy (line item) level by agency. For example, "Highway Patrol," "Driver License and Records" and "Vehicle Inspection Program" are three of the strategies for the Texas Department of Public Safety. The legal level of budgetary control is defined as the level at which the governing body must approve any over expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 12.5 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller's office to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the *Appropriation Summary* Report, which is available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line item for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the governor may authorize additional appropriations from deficiency and emergency appropriation reserves. During fiscal 2008, $7.7 million was transferred to the Adjutant General and the Texas Department of Public Safety to assist with disaster recovery cash flow needs. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent the continuation of a prior year's balances for completion of a program.

Modified Approach to Reporting Infrastructure Assets

As permitted by GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the state has adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the state:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets,
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government, and
- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Although bridges are an integral part of the highway system, the state has elected to depreciate bridges. Therefore, they are not reported using the modified approach.

Condition Assessments

The Texas Department of Transportation (TxDOT) performs yearly condition assessments through its Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10 percent of the interstate system and 5 percent of the non-interstate system (national, state and farm-to-market roadways). For each section of highway observed, 21 elements separated into three highway components are assessed scores from 0 to 5 (0=NA, 1=Failed, 2=Poor, 3=Fair, 4=Good, 5=Excellent) in order to determine the condition of the highways. Each element within a component is weighted according to importance and each component is weighted according to importance to determine the overall condition of the highways. The overall score is converted to a percentage measurement for reporting (1=20 percent, 2=40 percent, 3=60 percent, 4=80 percent, 5=100 percent).

Assessed Conditions

TxDOT has adopted a minimum condition level of 80 percent for the interstate system, 75 percent for the non-interstate system and 80 percent for the Central Texas Turnpike System based on TxMap assessments.

Year	Interstate Condition (Minimum 80%)	Non-Interstate Condition (Minimum 75%)	Central Texas Turnpike System (Minimum (80%)
2008	83.7%	79.0%	91.7%
2007	84.1%	79.5%	N/A
2006	83.4%	78.0%	N/A
2005	82.1%	77.9%	N/A
2004	82.3%	79.1%	N/A

Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT's estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures.

Maintenance Cost

(Amounts in Thousands)

	2008	2007	2006	2005	2004
INTERSTATE HIGHWAYS					
Estimate	$ 502,128	$ 438,460	$ 469,818	$ 314,000	$ 400,000
Actual	$ 438,237	$ 471,925	$ 434,088	$ 427,107	$ 383,933
OTHER HIGHWAYS					
Estimate	$2,455,243	$1,702,612	$1,608,015	$1,590,417	$1,450,000
Actual	$1,649,317	$1,881,285	$1,750,438	$1,604,781	$1,378,863
CENTRAL TEXAS TURNPIKE SYSTEM*					
Estimate	6,910	N/A	N/A	N/A	N/A
Actual	5,411	N/A	N/A	N/A	N/A

* Fiscal 2008 is the first fiscal year in which a condition assessment has been conducted for the Central Texas Turnpike System, which opened in fiscal 2007.

Factors Affecting Condition Assessments

TxDOT continues to develop its methods for determining such estimates. As additional experience is acquired in the estimation and reporting processes, TxDOT hopes to achieve a greater correlation between the estimated maintenance expenditures needed to maintain the highway system at or above the adopted condition levels and the condition level of the highways. In comparing actual expenditures to estimated expenditures, factors such as increases in traffic, legislative mandates, budgetary constraints and environmental effects (rainfall, drought, freeze, thaw, etc.) should be considered as they may have a major impact on needed funds and the condition of Texas roads.

Schedules of Funding Progress

The schedules of funding progress for the University of Texas and Texas A&M University Systems' other postemployment benefit (OPEB) plans are presented in the adjacent table.

The schedules of funding progress for the three most recent pension plan valuations are presented below.

Schedules of Funding Progress – OPEB

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c)
UT System Employee Group Insurance Program (UT Plan)						
12/31/07	$ 0	$5,014,217	$(5,014,217)	0.0%	$4,312,904	(116.3)%
A&M Care Health and Life Plan (A&M Plan)						
09/01/07	$ 0	$1,993,236	$(1,993,236)	0.0%	$1,140,126	(174.8)%

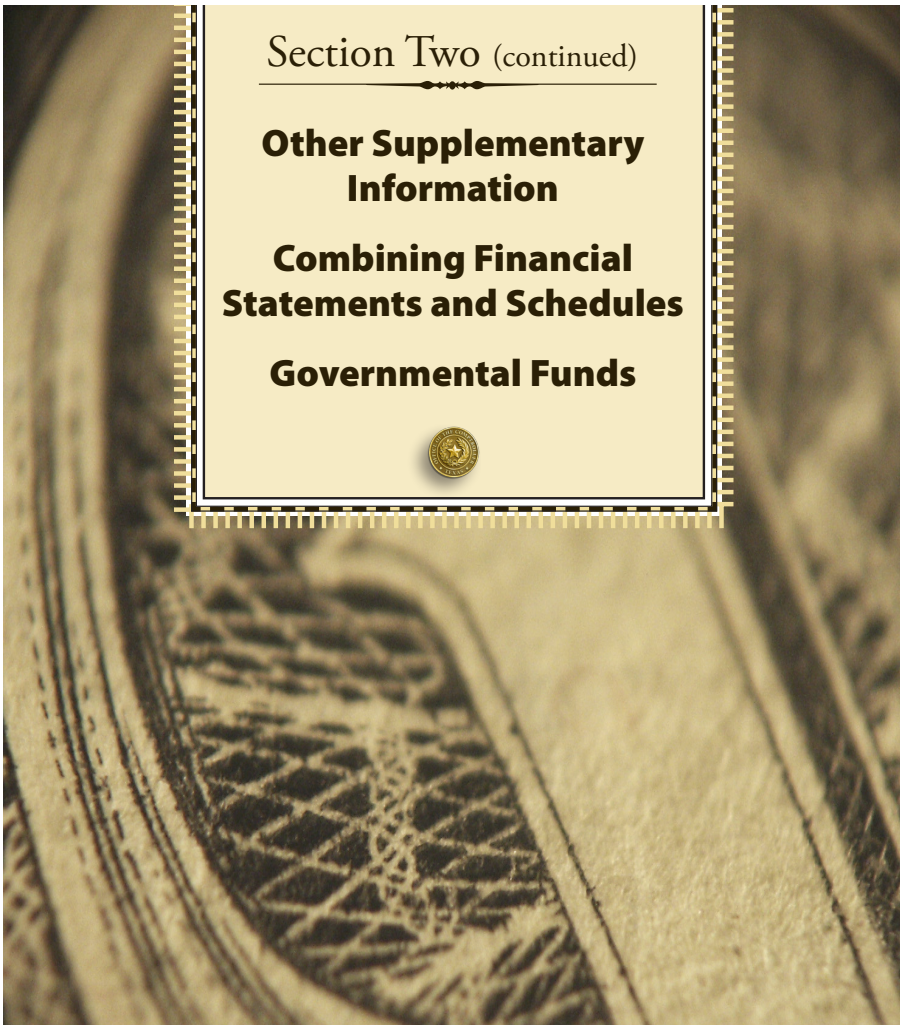
Schedules of Funding Progress – Pension

(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c)
Employees Retirement System (ERS)						
08/31/08	$ 23,511,918	$ 25,403,280	$ (1,891,362)	92.6%	$ 5,379,527	(35.2)%
08/31/07	22,938,947	23,987,165	(1,048,218)	95.6%	5,253,723	(20.0)%
08/31/06	21,780,437	22,884,917	(1,104,480)	95.2%	5,051,330	(21.9)%
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)						
08/31/08	$ 774,509	$ 842,135	$ (67,626)	92.0%	$ 1,242,122	(5.4)%
08/31/07	747,765	762,666	(14,901)	98.0%	1,360,819	(1.1)%
08/31/06	720,307	708,437	11,870	101.7%	1,279,463	0.9%
Judicial Retirement System Plan One (JRS1)						
08/31/08	$ 0	$ 289,671	$ (289,671)	0.0%	$ 3,478	(8,328.7)%
08/31/07	0	312,852	(312,852)	0.0%	2,777	(11,265.8)%
08/31/06	0	325,977	(325,977)	0.0%	5,138	(6,344.4)%
Judicial Retirement System Plan Two (JRS2)						
08/31/08	$ 232,891	$ 239,098	$ (6,207)	97.4%	$ 66,110	(9.4)%
08/31/07	211,933	220,884	(8,951)	95.9%	64,654	(13.8)%
08/31/06	186,400	198,840	(12,440)	93.7%	62,306	(20.0)%
Teacher Retirement System of Texas (TRS)						
08/31/08	$110,233,420	$121,756,542	$(11,523,122)	90.5%	$33,237,904	(34.7)%
08/31/07	103,419,088	115,963,722	(12,544,634)	89.2%	31,114,096	(40.3)%
08/31/06	94,217,922	107,911,459	(13,693,537)	87.3%	28,397,283	(48.2)%

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Total Members Covered (not rounded)	Excess/UAAL Per Member Covered (not rounded)
Texas Emergency Services Retirement System (TESRS)						
08/31/08*	$ 60,987	$ 64,227	$ (3,240)	95.0%	8,254	$ (393)
08/31/06*	42,268	58,083	(15,815)	72.8%	8,061	(1,962)
08/31/04	38,141	51,567	(13,426)	74.0%	7,994	(1,680)

* Actuarial assumptions and methodology were changed for the Aug. 31, 2006 and Aug. 31, 2008 valuations.



Section Two (continued)

Other Supplementary Information

Combining Financial Statements and Schedules

Governmental Funds

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Governmental Funds

August 31, 2008 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
ASSETS					
Cash and Cash Equivalents	$4,795,772	$ 6,554	$ 244,943	$ 153	$5,047,422
Short-Term Investments	53,468			34,578	88,046
Securities Lending Collateral				16,808	16,808
Receivables:					
Accounts	4,255	191	670		5,116
Federal	1,524				1,524
Investment Trades				596	596
Interest and Dividends	12,258	902		1,414	14,574
Due From Other Funds	65,039		18,935		83,974
Due From Component Units	63				63
Inventories	437		82		519
Prepaid Items	5	4			9
Investments	12,315	54		1,105,291	1,117,660
Loans and Contracts	242,222				242,222
Other Assets	8,034				8,034
Restricted:					
Cash and Cash Equivalents	138,755	181,510			320,265
Loans and Contracts	650,730				650,730
Other Assets	86,908				86,908
Total Assets	$6,071,785	$ 189,215	$ 264,630	$1,158,840	$7,684,470
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 163,959	$ 12	$ 70,532	$ 577	$ 235,080
Investment Trades				1,246	1,246
Payroll	7,267		80		7,347
Federal	40				40
Due To Other Funds	73,654		52		73,706
Interfund Payable	147		2,377		2,524
Deferred Revenues	445				445
Obligations/Securities Lending				16,807	16,807
Other Liabilities	2,050		966		3,016
Total Liabilities	247,562	12	74,007	18,630	340,211
Fund Balances:					
Reserved (Note 13)	1,153,454	189,203	314,306	575,931	2,232,894
Unreserved (Note 13)	4,670,769		(123,683)	564,279	5,111,365
Total Fund Balances	5,824,223	189,203	190,623	1,140,210	7,344,259
Total Liabilities and Fund Balances	$6,071,785	$ 189,215	$ 264,630	$1,158,840	$7,684,470

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
REVENUES					
Taxes	$2,501,610	$	$	$	$2,501,610
Federal	26,656	(21)			26,635
Licenses, Fees and Permits	574,866				574,866
Interest and Other Investment Income	127,162	13,449	7,642	(76,264)	71,989
Land Income	15			23	38
Sales of Goods and Services	5,288		17,454		22,742
Other	76,175	65	73		76,313
Total Revenues	3,311,772	13,493	25,169	(76,241)	3,274,193
EXPENDITURES					
Current:					
General Government	193,188	236	21,653	4,823	219,900
Education	1,537,872		1,320		1,539,192
Employee Benefits	12,640				12,640
Health and Human Services	14,594		66,965		81,559
Public Safety and Corrections	72,638		10,868		83,506
Transportation	2,561		13,557		16,118
Natural Resources and Recreation	61,835		2,480		64,315
Regulatory Services	91,220				91,220
Capital Outlay	4,940		101,475		106,415
Debt Service:					
Principal	30,906	331,740			362,646
Interest	173,438	154,806	27		328,271
Other Financing Fees	6,041	2,472			8,513
Total Expenditures	2,201,873	489,254	218,345	4,823	2,914,295
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,109,899	(475,761)	(193,176)	(81,064)	359,898
OTHER FINANCING SOURCES (USES)					
Transfer In	4,912,110	528,124	2,824		5,443,058
Transfer Out	(4,862,223)	(90)	(24,505)	(28,187)	(4,915,005)
Bonds and Notes Issued	1,287,035		291,775		1,578,810
Bonds Issued for Advance Refunding		514,680	728		515,408
Premiums on Bonds Issued	65,683	35,660	5,774		107,117
Payment to Escrow for Advance Refunding		(558,623)			(558,623)
Insurance Recoveries			500		500
Total Other Financing Sources (Uses)	1,402,605	519,751	277,096	(28,187)	2,171,265
Net Change in Fund Balances	2,512,504	43,990	83,920	(109,251)	2,531,163
Fund Balances, September 1, 2007	3,242,576	145,165	98,415	1,249,461	4,735,617
Restatements	69,143	48	8,288		77,479
Fund Balances, September 1, 2007, as Restated	3,311,719	145,213	106,703	1,249,461	4,813,096
Fund Balances, August 31, 2008	$5,824,223	$ 189,203	$ 190,623	$1,140,210	$7,344,259

Nonmajor Special Revenue Funds

The **Property Tax Relief Fund** is outside the general revenue fund. The proceeds of the fund are from allocations of the computation of motor vehicle sales tax, collection of all tobacco products tax increase and calculated amounts from franchise taxes. The intent of the fund will be to reduce school district property taxes.

The **State Textbook Fund** holds money transferred from the Available School Fund to provide free textbooks for use of children attending public schools.

The **Water Development Funds** receive proceeds from the sale of Texas Water Development bonds for the purpose of aiding and making funds available to various political subdivisions for projects and other authorized purposes. The funds also receive gifts or grants for the purpose of assisting economically distressed areas. Monies in the funds are invested.

The **System Benefit Fund** receives funds from a non-bypassable fee in an amount not to exceed 65 cents per megawatt hour and interest earned. The funds are used to provide funding for programs to assist low-income electric customers, customer education and school funding loss mechanism.

The **Available School Fund** receives distributions from the permanent school fund based on total return of investment assets, allocations of motor fuel taxes and appropriations made by the Legislature. The fund is to be used for the support of public schools.

The **Texas Mobility Fund** accounts for the construction, reconstruction, acquisition and expansion of state highways, including costs of design and acquisition of right of way. It provides payment of a portion of the costs of construction, publicly owned toll roads and other public transportation projects. It is financed primarily from the sale of obligations of the state, appropriations made by the Legislature of revenue, including taxes, other money not otherwise dedicated by the construction and money received from a regional mobility authority that determines it has surplus revenue from turnpike projects and chooses to send the excess to this fund.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Special Revenue Funds

August 31, 2008 (Amounts in Thousands)

	Property Tax Relief Fund	State Textbook Fund*	Water Development Funds	System Benefit Fund	Available School Fund	Texas Mobility Fund	Other Nonmajor Special Revenue Funds**	Totals
ASSETS								
Cash and Cash Equivalents	$3,000,000	$ 15,470	$137,143	$503,218	$20,507	$955,909	$ 163,525	$4,795,772
Short-Term Investments			36,491				16,977	53,468
Receivables:								
Accounts		306	464			460	3,025	4,255
Federal							1,524	1,524
Interest and Dividends	1,916	47	969		276		9,050	12,258
Due From Other Funds			10		63,586		1,443	65,039
Due From Component Units							63	63
Inventories							437	437
Prepaid Items							5	5
Investments							12,315	12,315
Loans and Contracts			242,222					242,222
Other Assets							8,034	8,034
Restricted:								
Cash and Cash Equivalents							138,755	138,755
Loans and Contracts							650,730	650,730
Other Assets							86,908	86,908
Total Assets	$3,001,916	$ 15,823	$417,299	$503,218	$84,369	$956,369	$1,092,791	$6,071,785
LIABILITIES AND FUND BALANCES								
Liabilities:								
Payables:								
Accounts	$	$ 133,024	$ 937	$ 23,945	$	$ 18	$ 6,035	$ 163,959
Payroll							7,267	7,267
Federal							40	40
Due To Other Funds			389			73,091	174	73,654
Interfund Payable							147	147
Deferred Revenues							445	445
Other Liabilities							2,050	2,050
Total Liabilities	0	133,024	1,326	23,945	0	73,109	16,158	247,562
Fund Balances/(Deficits):								
Reserved for:								
Encumbrances			18,977	5,324			6,533	30,834
Inventories							437	437
Imprest Accounts							10	10
Loans and Contracts			239,343				882,830	1,122,173
Unreserved:								
Designated for:								
General Government	3,001,916						118,836	3,120,752
Regulatory Services				473,949			17,637	491,586
Health and Human Services							12,703	12,703
Natural Resources and Recreation			157,653				33,430	191,083
Education					84,369		3,679	88,048
Transportation						883,260	1,226	884,486
Public Safety and Corrections							6,825	6,825
Employee Benefits							90	90
Undesignated		(117,201)					(7,603)	(124,804)
Total Fund Balances	3,001,916	(117,201)	415,973	479,273	84,369	883,260	1,076,633	5,824,223
Total Liabilities and Fund Balances	$3,001,916	$ 15,823	$417,299	$503,218	$84,369	$956,369	$1,092,791	$6,071,785

* This is a new fund that is discretely presented.

** The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Property Tax Relief Fund	State Textbook Fund*	Water Development Funds	System Benefit Fund	Available School Fund	Texas Mobility Fund	Other Nonmajor Special Revenue Funds**	Totals
REVENUES								
Taxes	$2,501,610	$	$	$	$	$	$	$2,501,610
Federal			20,803				5,853	26,656
Licenses, Fees and Permits		660		144,043		267,916	162,247	574,866
Interest and Other Investment Income	6,287	1,058	13,427	19,304	4,033	35,460	47,593	127,162
Land Income							15	15
Sales of Goods and Services		1,597	495				3,196	5,288
Other			3,717				72,458	76,175
Total Revenues	2,507,897	3,315	38,442	163,347	4,033	303,376	291,362	3,311,772
EXPENDITURES								
Current:								
General Government							193,188	193,188
Education		265,479			1,203,467		68,926	1,537,872
Employee Benefits							12,640	12,640
Health and Human Services							14,594	14,594
Public Safety and Corrections							72,638	72,638
Transportation						439	2,122	2,561
Natural Resources and Recreation			33,241				28,594	61,835
Regulatory Services				79,255			11,965	91,220
Capital Outlay		2	29				4,909	4,940
Debt Service:								
Principal						30,900	6	30,906
Interest						173,438		173,438
Other Financing Fees						4,700	1,341	6,041
Total Expenditures	0	265,481	33,270	79,255	1,203,467	209,477	410,923	2,201,873
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,507,897	(262,166)	5,172	84,092	(1,199,434)	93,899	(119,561)	1,109,899
OTHER FINANCING SOURCES (USES)								
Transfer In	3,000,000	269,301	9,680		1,477,754		155,375	4,912,110
Transfer Out	(3,239,142)		(13,247)		(270,442)	(1,212,608)	(126,784)	(4,862,223)
Bonds and Notes Issued			112,920			1,100,000	74,115	1,287,035
Premiums on Bonds Issued			3,691			61,109	883	65,683
Total Other Financing Sources (Uses)	(239,142)	269,301	113,044	0	1,207,312	(51,499)	103,589	1,402,605
Net Change in Fund Balances	2,268,755	7,135	118,216	84,092	7,878	42,400	(15,972)	2,512,504
Fund Balances, September 1, 2007	733,161	(124,336)	297,757	395,181	76,491	778,220	1,086,102	3,242,576
Restatements						62,640	6,503	69,143
Fund Balances, September 1, 2007, as Restated	733,161	(124,336)	297,757	395,181	76,491	840,860	1,092,605	3,311,719
Fund Balances, August 31, 2008	$3,001,916	$(117,201)	$415,973	$479,273	$ 84,369	$ 883,260	$1,076,633	$5,824,223

* This is a new fund that is discretely presented.

** The other nonmajor special revenue funds column includes blended component units and the special revenue funds of the Employees Retirement System of Texas and the student loan fund. These funds do not meet the materiality threshold for separate column presentation.

STATE OF TEXAS

Budgetary Comparison Schedule
Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Property Tax Relief Fund				State Textbook Fund			
	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
	Original	Final			Original	Final		
REVENUES								
Taxes	$ 3,707,887	$3,703,751	$2,501,608	$(1,202,143)	$	$	$	$
Federal					300	300	354	54
Licenses, Fees and Permits								
Interest and Other Investment Income	11,392	11,392	6,610	(4,782)	257	257	1,040	783
Land Income								
Sales of Goods and Services					1,750	1,750	1,598	(152)
Other								
Total Revenues	3,719,279	3,715,143	2,508,218	(1,206,925)	2,307	2,307	2,992	685
EXPENDITURES								
General Government								
Education	4,231,466				499,329	500,793	263,820	236,973
Employee Benefits								
Health and Human Services								
Public Safety and Corrections								
Transportation								
Natural Resources and Recreation								
Regulatory Services								
Total Expenditures	4,231,466	0	0	0	499,329	500,793	263,820	236,973
Excess (Deficiency) of Revenues Over (Under) Expenditures	(512,187)	3,715,143	2,508,218	(1,206,925)	(497,022)	(498,486)	(260,828)	237,658
OTHER FINANCING SOURCES (USES)								
Transfer In		3,000,000	3,000,000		496,245	496,245	269,302	(226,943)
Transfer Out	(4,231,466)	(3,239,142)	(3,239,142)					
Bond Proceeds								
Available Beginning Balances	730,924	730,924	730,924		6,936	6,936	6,936	
Total Other Financing Sources (Uses)	(3,500,542)	491,782	491,782	0	503,181	503,181	276,238	(226,943)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$(4,012,729)	$4,206,925	$3,000,000	$(1,206,925)	$ 6,159	$ 4,695	$ 15,410	$ 10,715

Water Development Funds				System Benefit Fund				Available School Fund			
Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
Original	Final			Original	Final			Original	Final		
$	$	$	$	$	$	$	$	$	$	$	$
96	20,665	20,803	138								
				146,897	146,897	144,043	(2,854)				
16,581	16,597	12,374	(4,223)	14,278	14,278	19,303	5,025	10,684	5,258	4,448	(810)
150	295	622	327								
		3,717	3,717								
16,827	37,557	37,516	(41)	161,175	161,175	163,346	2,171	10,684	5,258	4,448	(810)
								977,100	977,100	1,203,467	(226,367)
8,309	30,398	33,660	(3,262)								
				97,107	97,211	64,440	32,771				
8,309	30,398	33,660	(3,262)	97,107	97,211	64,440	32,771	977,100	977,100	1,203,467	(226,367)
8,518	7,159	3,856	(3,303)	64,068	63,964	98,906	34,942	(966,416)	(971,842)	(1,199,019)	(227,177)
								1,472,664	1,473,850	1,477,752	3,902
		(1,317)	(1,317)					(496,425)	(496,425)	(270,441)	225,984
89,497	89,497	89,497		404,311	404,311	404,311		12,351	12,351	12,351	
89,497	89,497	88,180	(1,317)	404,311	404,311	404,311	0	988,590	989,776	1,219,662	229,886
$98,015	$96,656	$92,036	$(4,620)	$468,379	$468,275	$503,217	$34,942	$ 22,174	$ 17,934	$ 20,643	$ 2,709

Concluded on the following page

STATE OF TEXAS

Budgetary Comparison Schedule
Nonmajor Special Revenue Funds (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Texas Mobility Fund				Other Nonmajor Special Revenue Funds			
	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
	Original	Final			Original	Final		
REVENUES								
Taxes	$	$	$	$	$	$	$	$
Federal					14,583	14,583	240,655	226,072
Licenses, Fees and Permits	267,088	263,105	267,456	4,351	71,216	82,691	92,869	10,178
Interest and Other Investment Income	5,676	6,000	35,460	29,460	21,379	21,470	27,304	5,834
Land Income							3	3
Sales of Goods and Services						49,298	2,478	(46,820)
Other					48	59	16,151	16,092
Total Revenues	272,764	269,105	302,916	33,811	107,226	168,101	379,460	211,359
EXPENDITURES								
General Government					430,351	177,566	95,314	82,252
Education					5,066	45,565	1,264	44,301
Employee Benefits					505,953	12,479	12,600	(121)
Health and Human Services					27,861	28,176	17,294	10,882
Public Safety and Corrections					29,043	29,043	725	28,318
Transportation	1,394,837	2,003,919	3,149	2,000,770				
Natural Resources and Recreation					23,007	26,510	23,439	3,071
Regulatory Services						7,833	11,213	(3,380)
Total Expenditures	1,394,837	2,003,919	3,149	2,000,770	1,021,281	327,172	161,849	165,323
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,122,073)	(1,734,814)	299,767	2,034,581	(914,055)	(159,071)	217,611	376,682
OTHER FINANCING SOURCES (USES)								
Transfer In					7,300	7,310	114,382	107,072
Transfer Out			(1,212,608)	(1,212,608)			(26,960)	(26,960)
Bond Proceeds*	1,100,000	1,100,000	1,100,000					
Available Beginning Balances	1,125,545	1,125,545	1,125,545		132,064	132,064	132,064	
Total Other Financing Sources (Uses)	2,225,545	2,225,545	1,012,937	(1,212,608)	139,364	139,374	219,486	80,112
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$1,103,472	$ 490,731	$1,312,704	$ 821,973	$(774,691)	$ (19,697)	$437,097	$456,794

* The Texas mobility fund received $1.1 billion in bond proceeds. These are authorized by Article 3, Section 49-p of the Texas Constitution.

Nonmajor Debt Service Funds

The **Texas College Student Loan Bonds Interest and Sinking Fund** receives deposits from the Texas Opportunity Plan fund for payment of current interest and principal and establishment of a reserve.

The **Texas Public Finance Authority Revenue Bond Funds** receive proceeds and accrued interest from the sale of revenue bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority G. O. Bond Funds** receive proceeds and accrued interest from the sale of general obligation bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority Commercial Paper Funds** receive deposits of any accrued interest on sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Water Development Board Bond Funds** receive proceeds to pay debt service on the bonds issued for the purpose of providing financial assistance for the construction of water and wastewater related projects, water supply and sewer services.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Debt Service Funds

August 31, 2008 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Funds	Texas Water Development Board Bond Funds	Other Nonmajor Debt Service Funds*	Totals
ASSETS							
Cash and Cash Equivalents	$	$ 1,357	$ 251	$ 4,841	$ 27	$ 78	$ 6,554
Receivables:							
Accounts	191						191
Interest and Dividends	902						902
Prepaid Items						4	4
Investments		54					54
Restricted:							
Cash and Cash Equivalents	181,507					3	181,510
Total Assets	$ 182,600	$ 1,411	$ 251	$ 4,841	$ 27	$ 85	$189,215
LIABILITIES AND FUND BALANCES							
Liabilities:							
Payables:							
Accounts	$ 6	$	$ 6	$	$	$	$ 12
Total Liabilities	6	0	6	0	0	0	12
Fund Balances:							
Reserved for Debt Service	182,594	1,411	245	4,841	27	85	189,203
Total Fund Balances	182,594	1,411	245	4,841	27	85	189,203
Total Liabilities and Fund Balances	$ 182,600	$ 1,411	$ 251	$ 4,841	$ 27	$ 85	$189,215

* The student loan revenue bond fund, Texas military facilities commission refund and improvement bond fund and the Texas park development bond interest and sinking fund are now being reported in this column.

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Texas Public Finance Authority G.O. Bond Funds	Texas Public Finance Authority Commercial Paper Funds	Texas Water Development Board Bond Funds	Other Nonmajor Debt Service Funds*	Totals
REVENUES							
Federal	$ (22)	$	$	$	$	$ 1	$ (21)
Interest and Other Investment Income	11,730	1,292	211	156	42	18	13,449
Other			65				65
Total Revenues	11,708	1,292	276	156	42	19	13,493
EXPENDITURES							
Current:							
General Government			236				236
Debt Service:							
Principal	18,000	57,905	209,950	20,360	17,105	8,420	331,740
Interest	27,765	17,030	81,722	3,118	17,529	7,642	154,806
Other Payments for Refunding	547	390	1,535				2,472
Total Expenditures	46,312	75,325	293,443	23,478	34,634	16,062	489,254
Deficiency of Revenues Under Expenditures	(34,604)	(74,033)	(293,167)	(23,322)	(34,592)	(16,043)	(475,761)
OTHER FINANCING SOURCES (USES)							
Transfer In	79,651	73,583	299,388	24,921	34,588	15,993	528,124
Transfer Out		(1)				(89)	(90)
Bond Proceeds for Advance Refunding	72,600	60,645	381,435				514,680
Premiums on Bonds Issued	3,125	1,624	30,911				35,660
Payment to Escrow for Advance Refunding	(77,739)	(61,911)	(418,973)				(558,623)
Total Other Financing Sources (Uses)	77,637	73,940	292,761	24,921	34,588	15,904	519,751
Net Change in Fund Balances	43,033	(93)	(406)	1,599	(4)	(139)	43,990
Fund Balances, September 1, 2007	139,513	1,504	651	3,242	31	224	145,165
Restatements	48						48
Fund Balances, September 1, 2007, as Restated	139,561	1,504	651	3,242	31	224	145,213
Fund Balances, August 31, 2008	$ 182,594	$ 1,411	$ 245	$ 4,841	$ 27	$ 85	$ 189,203

* The student loan revenue bond fund, Texas military facilities commission refund and improvement bond fund and the Texas park development bond interest and sinking fund are now being reported in this column.

Nonmajor Capital Projects Funds

The **Texas Public Finance Authority Administration Project Funds** utilize long-term financing for various state construction, repair or renovation projects. Funds are also used to refinance purchases of equipment by various state agencies.

The **Texas Parks and Wildlife Department Project Funds** are used for the acquisition and development of state park sites. Revenues from park entrance fees are used for the repayments of long-term debt incurred.

The **Texas Facilities Commission Project Funds** are used to administer the state's major and minor building construction programs.

The **Texas Department of Criminal Justice Prison Project Funds** are used for construction of regional centers and for repairs and minor construction of correctional facilities.

The **Texas Youth Commission Project Funds** are used to pay for minor construction and repairs of the Texas Youth Commission.

The **Texas Health Agencies Project Funds** are used to pay for the cost of construction, repair and remodeling for certain mental health facilities and other health related projects.

The **Texas Department of Public Safety Project Funds** are used to finance construction of new DPS buildings and Crime Lab facilities in various state locations.

The **Texas Department of Transportation Project Funds** are used to provide financial assistance to counties for roadway projects serving border colonias.

The **Texas Historical Commission Project Funds** are used to provide financial assistance to counties for the repair and renovation of court houses.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Capital Projects Funds

August 31, 2008 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds*	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds
ASSETS					
Cash and Cash Equivalents	$ 5,691	$ 26,714	$ 61,914	$ 64,696	$ 8,489
Accounts Receivable			632		
Due From Other Funds			18,237		179
Inventories	3				
Total Assets	$ 5,694	$ 26,714	$ 80,783	$ 64,696	$ 8,668
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 183	$ 1,544	$ 3,029	$ 3,311	$ 940
Payroll	80				
Due To Other Funds		52			
Interfund Payable					
Other Liabilities				966	
Total Liabilities	263	1,596	3,029	4,277	940
Fund Balances/(Deficits):					
Reserved for:					
Encumbrances		17,201	54,521	13,224	12,908
Inventories	3				
Capital Projects	5,174	7,911	22,288	47,195	6,263
Unreserved:					
Designated for:					
Public Safety and Corrections					
Undesignated	254	6	945		(11,443)
Total Fund Balances	5,431	25,118	77,754	60,419	7,728
Total Liabilities and Fund Balances	$ 5,694	$ 26,714	$ 80,783	$ 64,696	$ 8,668

* The Building and Procurement Project Funds have been renamed as the Texas Facilities Project funds.

** The Texas Department of Public Safety Project Funds are now discretely presented.

*** The Texas military facilities commission project fund is now being reported in this column.

Texas Health Agencies Project Funds	Texas Department of Public Safety Project Funds**	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Other Nonmajor Capital Projects Funds***	Totals
$ 23,811	$ 26,076	$ 5,642	$ 12,058	$ 9,852	$ 244,943
				38	670
519					18,935
				79	82
$ 24,330	$ 26,076	$ 5,642	$ 12,058	$ 9,969	$ 264,630
$ 60,202	$ 820	$ 502	$	$ 1	$ 70,532
					80
					52
2,350			27		2,377
					966
62,552	820	502	27	1	74,007
5,263	3,849		9,689	34	116,689
				79	82
67,258	25,256	5,140	1,723	9,327	197,535
				563	563
(110,743)	(3,849)		619	(35)	(124,246)
(38,222)	25,256	5,140	12,031	9,968	190,623
$ 24,330	$ 26,076	$ 5,642	$ 12,058	$ 9,969	$ 264,630

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Facilities Commission Project Funds*	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds
REVENUES					
Interest and Other Investment Income	$ 293	$ 867	$ 2,043	$ 1,500	$ 219
Sales of Goods and Services			17,452		
Other	60			13	
Total Revenues	353	867	19,495	1,513	219
EXPENDITURES					
Current:					
General Government	10,434		3,445	292	
Education					
Health and Human Services					
Public Safety and Corrections				10,676	
Transportation					
Natural Resources and Recreation		2,480			
Capital Outlay		4,922	15,874	40,279	8,657
Debt Service:					
Interest					
Total Expenditures	10,434	7,402	19,319	51,247	8,657
Excess (Deficiency) of Revenues Over (Under) Expenditures	(10,081)	(6,535)	176	(49,734)	(8,438)
OTHER FINANCING SOURCES (USES)					
Transfer In	783				
Transfer Out	(23,406)	(175)	(90)	(80)	(134)
Bonds and Notes Issued	32,200	11,500	58,854	90,621	15,200
Bond Proceeds for Advance Refunding	580			148	
Premiums on Bonds Issued			5,774		
Insurance Recoveries	500				
Total Other Financing Sources (Uses)	10,657	11,325	64,538	90,689	15,066
Net Change in Fund Balances	576	4,790	64,714	40,955	6,628
Fund Balances, September 1, 2007	4,855	20,328	13,040	19,464	1,100
Restatements					
Fund Balances, September 1, 2007, as Restated	4,855	20,328	13,040	19,464	1,100
Fund Balances, August 31, 2008	$ 5,431	$ 25,118	$ 77,754	$ 60,419	$ 7,728

* The Building and Procurement Project Funds have been renamed as the Texas Facilities Project funds.

** The Texas Department of Public Safety Project Funds are now discretely presented.

*** The Texas military facilities commission project fund is now being reported in this column.

Texas Health Agencies Project Funds	Texas Department of Public Safety Project Funds**	Texas Department of Transportation Project Funds	Texas Historical Commission Project Funds	Other Nonmajor Capital Projects Funds***	Totals
$ 828	$ 278	$ 419	$ 742	$ 453	$ 7,642
2					17,454
					73
830	278	419	742	453	25,169
			7,482		21,653
				1,320	1,320
66,965					66,965
	23			169	10,868
		13,557			13,557
					2,480
6,498	16,974		403	7,868	101,475
27					27
73,490	16,997	13,557	7,885	9,357	218,345
(72,660)	(16,719)	(13,138)	(7,143)	(8,904)	(193,176)
1,881				160	2,824
(378)	(87)		(154)	(1)	(24,505)
21,500	38,400	15,000		8,500	291,775
					728
					5,774
					500
23,003	38,313	15,000	(154)	8,659	277,096
(49,657)	21,594	1,862	(7,297)	(245)	83,920
3,147	3,662	3,278	19,328	10,213	98,415
8,288					8,288
11,435	3,662	3,278	19,328	10,213	106,703
$ (38,222)	$ 25,256	$ 5,140	$ 12,031	$ 9,968	$ 190,623

Nonmajor Permanent Funds

The **Permanent Health Fund for Higher Education** is a permanent fund established by the Legislature from a portion of the money received in the settlement of The State of Texas v. The American Tobacco Co., et.al. The corpus of the account has been designated by the Legislature to be preserved. Distributions of earnings on the account are to be transferred to other accounts and used for health care costs, tobacco education and enforcement.

The **Permanent Higher Education Fund** is established by legislation to dedicate portions of the state's revenues. The principal shall never be expended. At the beginning of the fiscal year after the fund reaches $2 billion and each year thereafter, 10 percent of the interest, dividends and other income accruing from investments during the previous fiscal year shall be deposited and become part of the principal of the fund. Out of the remainder of the annual income, there shall be appropriated an annual sum sufficient to pay the principal and interest due on the bonds and notes issued and the balance shall be allocated for appropriations made in Article VII, sec. 17(a) of the Texas Constitution.

The **Texas Commission on the Arts Trust Fund** consists of the Texas cultural endowment fund account held outside the treasury used for initial seed money for the endowment and deposits toward the endowment. This fund is to provide a stable funding source for the enhancement of art education, encourage economic development and advance the well being of communities.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Permanent Funds

August 31, 2008 (Amounts in Thousands)

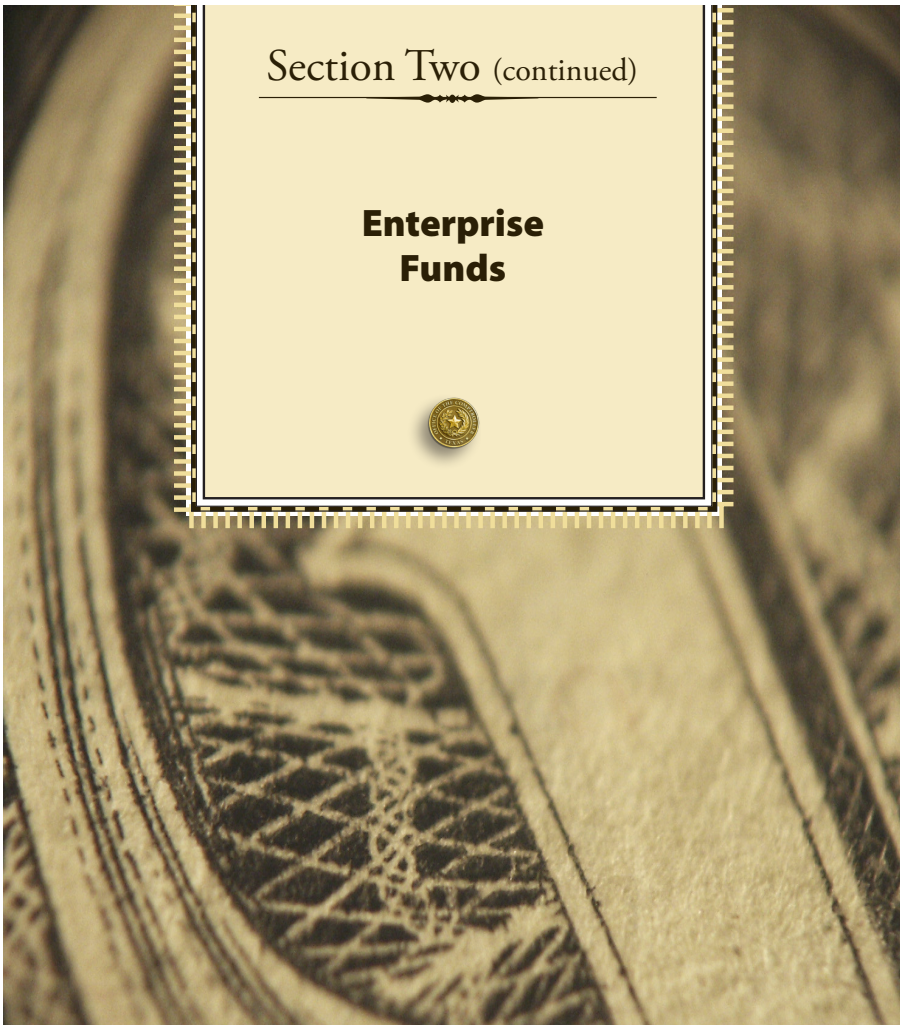
	Permanent Health Fund for Higher Education	Permanent Higher Education Fund	Texas Commission on the Arts Trust Fund	Other Nonmajor Permanent Funds	Totals
ASSETS					
Cash and Cash Equivalents	$	$	$ 94	$ 59	$ 153
Short-Term Investments	17,076	17,502			34,578
Securities Lending Collateral	8,010	8,798			16,808
Receivables:					
Investment Trades	295	301			596
Interest and Dividends	677	737			1,414
Investments	534,790	558,315	9,677	2,509	1,105,291
Total Assets	$ 560,848	$ 585,653	$ 9,771	$ 2,568	$1,158,840
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 283	$ 294	$	$	$ 577
Investment Trades	615	631			1,246
Obligations/Securities Lending	8,009	8,798			16,807
Total Liabilities	8,907	9,723	0	0	18,630
Fund Balances:					
Reserved for:					
Education		575,930		1	575,931
Unreserved:					
Designated for:					
Permanent Health Fund	558,020			2,500	560,520
Undesignated	(6,079)		9,771	67	3,759
Total Fund Balances	551,941	575,930	9,771	2,568	1,140,210
Total Liabilities and Fund Balances	$ 560,848	$ 585,653	$ 9,771	$ 2,568	$1,158,840

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	Permanent Higher Education Fund	Texas Commission on the Arts Trust Fund	Other Nonmajor Permanent Funds	Totals
REVENUES					
Interest and Other Investment Income (Loss)	$ (36,913)	$ (39,152)	$ (299)	$ 100	$ (76,264)
Land Income				23	23
Total Revenues	(36,913)	(39,152)	(299)	123	(76,241)
EXPENDITURES					
Current:					
General Government	2,280	2,345	98	100	4,823
Total Expenditures	2,280	2,345	98	100	4,823
Excess (Deficiency) of Revenues Over (Under) Expenditures	(39,193)	(41,497)	(397)	23	(81,064)
OTHER FINANCING USES					
Transfer Out	(22,905)		(5,009)	(273)	(28,187)
Total Other Financing Uses	(22,905)	0	(5,009)	(273)	(28,187)
Net Change in Fund Balances	(62,098)	(41,497)	(5,406)	(250)	(109,251)
Fund Balances, September 1, 2007	614,039	617,427	15,177	2,818	1,249,461
Fund Balances, August 31, 2008	$ 551,941	$ 575,930	$ 9,771	$ 2,568	$1,140,210



Section Two (continued)

Enterprise Funds

Nonmajor Enterprise Funds

The **Texas Workforce Commission Unemployment Trust Fund Accounts** are funds collected under the Old Age and Survivors Insurance Act on deposit with the treasurer of the United States of America to the credit of this state. It also serves as a clearance fund for the Unemployment Compensation fund held by the United States Treasury and as a holding account for paying benefits under the Unemployment Compensation Act.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with low to moderate incomes. Loan payments and rentals provide the revenue for debt service payments.

The **Texas Lottery Commission** accounts for the operation of lottery games for the state. This fund includes both the net proceeds from the lottery and accounts for future installment obligations to prize winners.

The **Veterans Land Board Loan Program Funds** receive proceeds from the sale of bonds that are used to administer, originate and service loans from land, housing and home improvement for those qualifying veterans.

The **Texas Department of Criminal Justice Institutional Division** accounts for the proceeds of the institutional division's commissary operations and other miscellaneous revenue.

The **Teacher Retirement System** (TRS) includes the TRS-ActiveCare fund, which provides health care coverage to employees (and their dependents) of participating public education entities. TRS is now considered a discrete component unit of the state.

The **Texas Prepaid Higher Education Tuition Board** offers a program that allows Texas families to lock in the cost of tomorrow's college tuition and required fees at today's prices.

STATE OF TEXAS

Combining Statement of Net Assets – Nonmajor Enterprise Funds

August 31, 2008 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 593	$ 41,524	$ 169,881	$
Securities Lending Collateral				89,818
Restricted:				
Cash and Cash Equivalents	1,775,261	163,616		121,937
Short-Term Investments		159,097	190,269	32,246
Loans and Contracts		12,656		70,526
Receivables:				
Federal	6,642			3,751
Accounts	115,312	1,549	33,531	59,454
Interest and Dividends	14,877	14,898		10,839
Investment Trades				
Other		75		
Due From Other Funds	2,875		79	1
Interfund Receivable		56		
Inventories		12	7,326	
Prepaid Items			4,667	
Loans and Contracts		1,608		
Other Current Assets		253		
Total Current Assets	1,915,560	395,344	405,753	388,572
Noncurrent Assets:				
Restricted:				
Cash and Cash Equivalents				
Investments		1,346,771	1,111,265	218,378
Receivables				
Loans and Contracts		1,246,109		2,024,449
Other				2,399
Loans and Contracts		32,067		
Capital Assets:				
Nondepreciable				3,500
Depreciable		1,158	5,861	78,821
Accumulated Depreciation		(1,010)	(5,072)	(18,614)
Assets Held in Trust				
Other Noncurrent Assets		12,570		
Total Noncurrent Assets	0	2,637,665	1,112,054	2,308,933
Total Assets	1,915,560	3,033,009	1,517,807	2,697,505

* This fund has activity on the combining statement of revenues, expenses and changes in fund net assets - nonmajor enterprise funds and the combining statement of cash flows - nonmajor enterprise funds.

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System*	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$	$	$ 2,855	$ 22,758	$ 237,611
		307,192		397,010
		135,594		2,196,408
				381,612
				83,182
				10,393
535			346	210,727
		14,978	47	55,639
		49,589		49,589
			2,775	2,850
23,708				26,663
				56
6,770			888	14,996
			164	4,831
		43,041	10,100	54,749
				253
31,013	0	553,249	37,078	3,726,569
			5,484	5,484
		1,604,129	52	4,280,595
		131,826		131,826
				3,270,558
				2,399
				32,067
283			376	4,159
4,250		2,285	6,081	98,456
(3,780)		(2,266)	(3,835)	(34,577)
			1,006	1,006
				12,570
753	0	1,735,974	9,164	7,804,543
31,766	0	2,289,223	46,242	11,531,112

Concluded on the following page

STATE OF TEXAS

Combining Statement of Net Assets – Nonmajor Enterprise Funds (concluded)

August 31, 2008 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	$ 38,565	$ 1,105	$ 15,971	$ 11,567
Payroll			1,633	
Investment Trades				
Interest		38,307		7,475
Annuities			12,174	
Due To Other Funds			15,828	266
Unearned Revenue	88,559	39,988		139
Obligations/Securities Lending				90,946
Capital Lease Obligations				
Employees' Compensable Leave		718	1,244	
Notes and Loans Payable		71,431		
General Obligation Bonds Payable				67,090
Revenue Bonds Payable		41,276		350
Liabilities Payable From Restricted Assets			285,334	
Other Current Liabilities		9,011	1,611	197
Total Current Liabilities	127,124	201,836	333,795	178,030
Noncurrent Liabilities:				
Capital Lease Obligations				
Employees' Compensable Leave		237	842	
Liabilities Payable From Restricted Assets			1,062,675	
Notes and Loans Payable				
General Obligation Bonds Payable				1,785,685
Revenue Bonds Payable		2,629,814		23,637
Assets Held for Others				
Other Noncurrent Liabilities		139,808		
Total Noncurrent Liabilities	0	2,769,859	1,063,517	1,809,322
Total Liabilities	127,124	2,971,695	1,397,312	1,987,352
NET ASSETS				
Invested in Capital Assets, Net of Related Debt		191	789	40,362
Restricted for:				
Debt Retirement		11,350		
Veterans Land Board Housing Programs				669,684
Unemployment Trust Funds	1,788,436			
Other			13,739	
Unrestricted		49,773	105,967	107
Total Net Assets	$ 1,788,436	$ 61,314	$ 120,495	$ 710,153

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$ 4,601	$	$ 1,974	$ 2,268	$ 76,051
1,383			1,480	4,496
		61,348		61,348
				45,782
				12,174
32		100		16,226
			68	128,754
		307,192		398,138
			126	126
1,002		60	526	3,550
				71,431
				67,090
				41,626
		212,668		498,002
				10,819
7,018	0	583,342	4,468	1,435,613
			200	200
372		22	323	1,796
		1,912,179		2,974,854
			5,907	5,907
				1,785,685
				2,653,451
			1,006	1,006
				139,808
372	0	1,912,201	7,436	7,562,707
7,390	0	2,495,543	11,904	8,998,320
752		19	1,255	43,368
				11,350
				669,684
				1,788,436
			611	14,350
23,624		(206,339)	32,472	5,604
$ 24,376	$ 0	$ (206,320)	$ 34,338	$ 2,532,792

STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
OPERATING REVENUES				
Lottery Collections	$	$	$ 3,671,884	$
Auxiliary Enterprises - Pledged				
Unemployment Taxes	1,058,134			
Other Sales of Goods and Services				8,032
Other Sales of Goods and Services - Pledged				30,825
Interest and Investment Income		152,104	2	100,360
Federal Revenue	135,165			19,804
Other Revenues	92,013	12,154	44,625	20
Other Revenues - Pledged				
Total Operating Revenues	1,285,312	164,258	3,716,511	159,041
OPERATING EXPENSES				
Cost of Goods Sold				
Salaries and Wages		7,649	15,950	
Payroll Related Costs		1,281	3,819	
Professional Fees and Services		2,075	4,074	54,128
Travel		289	301	8
Materials and Supplies		227	1,964	2,491
Communication and Utilities		112	612	
Repairs and Maintenance		189	366	365
Rentals and Leases		51	5,685	
Printing and Reproduction		17	11,610	3
Depreciation and Amortization		945	282	3,704
Unemployment Benefit Payments	1,464,794			
Bad Debt Expense		390	470	
Interest Expense		136,893	2	65,908
Lottery Fees and Other Costs			280,918	
Lottery Prize Payments			2,281,125	
Employee/Participant Benefit Payments				
Other Expenses		102	27,169	4,149
Total Operating Expenses	1,464,794	150,220	2,634,347	130,756
Operating Income (Loss)	(179,482)	14,038	1,082,164	28,285

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$	$	$	$	$ 3,671,884
86,605				86,605
				1,058,134
		(791)	8,334	15,575
				30,825
			382	252,848
				154,969
759		1,566	23,163	174,300
			10	10
87,364	0	775	31,889	5,445,150
61,846			1,575	63,421
13,053		777	9,284	46,713
3,900		170	1,971	11,141
		7,233	7,926	75,436
40		4	108	750
604		111	416	5,813
1		50	506	1,281
188		348	284	1,740
762		23	1,460	7,981
69		44	99	11,842
95		10	618	5,654
				1,464,794
30			6	896
1				202,804
				280,918
				2,281,125
		(26,992)		(26,992)
18		10,020	2,255	43,713
80,607	0	(8,202)	26,508	4,479,030
6,757	0	8,977	5,381	966,120

Concluded on the following page

STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
NONOPERATING REVENUES (EXPENSES)				
Federal Revenue	$	$	$	$ 109
Gifts				11
Interest and Investment Income (Loss)	95,136		36,620	19,495
Loan Premium and Fees on Securities Lending				
Investing Activities Expense				
Interest Expense	(1,708)			(1,478)
Borrower Rebates and Agent Fees				(1,922)
Gain on Sale of Capital Assets			9	
Settlement of Claims			5	
Claims and Judgments			(99)	
Other Revenues		(11,755)		
Other Expenses	(684)			
Total Nonoperating Revenues (Expenses)	92,744	(11,755)	36,535	16,215
Income (Loss) Before Transfers	(86,738)	2,283	1,118,699	44,500
CAPITAL CONTRIBUTIONS, SPECIAL ITEMS AND TRANSFERS				
Capital Contributions - Other				
Special Items	(150,026)			
Transfer In	1,646	5,325		2,990
Transfer Out			(1,034,879)	(24,612)
Total Capital Contributions, Special Items and Transfers	(148,380)	5,325	(1,034,879)	(21,622)
Change in Net Assets	(235,118)	7,608	83,820	22,878
Net Assets, September 1, 2007	2,023,554	53,706	36,675	687,194
Restatements				81
Net Assets, September 1, 2007, as Restated	2,023,554	53,706	36,675	687,275
Net Assets, August 31, 2008	$ 1,788,436	$ 61,314	$ 120,495	$ 710,153

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$	$	$	$ 281	$ 390
				11
		(55,320)	722	96,653
		13,642		13,642
		(18)		(18)
			(276)	(3,462)
		(9,005)		(10,927)
				9
1				6
			(8)	(107)
1			12	(11,742)
				(684)
2	0	(50,701)	731	83,771
6,759	0	(41,724)	6,112	1,049,891
			(110)	(110)
				(150,026)
4,331			2,829	17,121
(21,883)			(1,783)	(1,083,157)
(17,552)	0	0	936	(1,216,172)
(10,793)	0	(41,724)	7,048	(166,281)
35,169	435,295	(164,596)	27,290	3,134,287
	(435,295)			(435,214)
35,169	0	(164,596)	27,290	2,699,073
$ 24,376	$ 0	$ (206,320)	$ 34,338	$ 2,532,792

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	$ 1,032,088	$	$ 3,778,421	$ 57,862
Proceeds from Research Grants and Contracts	131,114			
Proceeds from Loan Programs		69,571		726,156
Proceeds from Other Revenues	93,292	9,548		254
Payments to Suppliers for Goods and Services		(8,405)	(342,307)	(58,024)
Payments to Employees		(8,732)	(19,480)	
Payments for Loans Provided		(63,176)		(657,678)
Payments for Other Expenses	(1,476,036)		(2,310,052)	(164)
Net Cash Provided by Operating Activities	(219,542)	(1,194)	1,106,582	68,406
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Debt Issuance		254,674		98,144
Proceeds from Transfers from Other Funds	4,459,100	17,080		84,136
Proceeds from Other Financing Activities			147,827	190,826
Payments of Principal on Debt Issuance	(401,684)	(126,342)		(122,963)
Payments of Interest	(4,339)	(139,304)		(67,349)
Payments of Other Costs on Debt Issuance		(1,646)		
Payments for Transfers to Other Funds	(4,480,971)	(11,979)	(1,036,776)	(288,394)
Payments for Other Uses	(109)		(169,230)	(2,251)
Net Cash Provided by Noncapital Financing Activities	(428,003)	(7,517)	(1,058,179)	(107,851)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Other Financing Activities				517
Payments for Additions to Capital Assets		(19)	(411)	(311)
Payments of Principal on Debt Issuance				(330)
Payments of Interest on Debt Issuance				(1,480)
Payments of Other Costs on Debt Issuance				(286)
Net Cash Provided by Capital and Related Financing Activities	0	(19)	(411)	(1,890)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Investments		620,189	173,393	332,137
Proceeds from Interest and Investment Income	98,430	83,539	6	18,245
Payments to Acquire Investments		(654,573)	(152,121)	(282,948)
Payments for Nonprogram Loans Provided				
Net Cash Provided by Investing Activities	98,430	49,155	21,278	67,434
Net Increase (Decrease) in Cash and Cash Equivalents	(549,115)	40,425	69,270	26,099
Cash and Cash Equivalents, September 1, 2007	2,324,969	164,715	100,611	95,838
Restatements				
Cash and Cash Equivalents, September 1, 2007, as Restated	2,324,969	164,715	100,611	95,838
Cash and Cash Equivalents, August 31, 2008	$ 1,775,854	$ 205,140	$ 169,881	$ 121,937

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$ 87,161	$	$ 43,385	$ 28,353	$ 5,027,270
				131,114
			2,669	798,396
759		462	3,033	107,348
(60,869)		(17,830)	(1,851)	(489,286)
(16,952)		(900)	(10,385)	(56,449)
			(629)	(721,483)
(1,715)		(108,631)	(13,295)	(3,909,893)
8,384	0	(83,514)	7,895	887,017
				352,818
4,331			5,575	4,570,222
			269	338,922
			(2,325)	(653,314)
			(223)	(211,215)
			(23)	(1,669)
(12,712)			(4,527)	(5,835,359)
				(171,590)
(8,381)	0	0	(1,254)	(1,611,185)
				517
(5)			(1,288)	(2,034)
				(330)
				(1,480)
				(286)
(5)	0	0	(1,288)	(3,613)
32,131		2,076,455		3,234,305
659		60,647	727	262,253
(32,788)		(1,974,811)		(3,097,241)
			(6)	(6)
2	0	162,291	721	399,311
0	0	78,777	6,074	(328,470)
	497,369	59,672	22,168	3,265,342
	(497,369)			(497,369)
0	0	59,672	22,168	2,767,973
$ 0	$ 0	$ 138,449	$ 28,242	$ 2,439,503

Concluded on the following page

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	$ (179,482)	$ 14,038	$ 1,082,164	$ 28,285
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization		945	282	3,704
Bad Debt Expense		389	470	
Operating Income (Loss) and Cash Flow Categories Classification Differences		38,068		66,104
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	68,934	4,950	61,910	(18,040)
(Increase) Decrease in Inventories			(471)	
(Increase) Decrease in Loans and Contracts		(6,629)		(15,083)
(Increase) Decrease in Other Assets		(659)		31,233
(Increase) Decrease in Prepaid Expenses				
Increase (Decrease) in Payables	(148,092)	(1,514)	(39,328)	3,710
Increase (Decrease) in Due To Other Funds				
Increase (Decrease) in Unearned Revenue	39,098	4,884	1,555	
Increase (Decrease) in Compensated Absence Liability				
Increase (Decrease) in Other Liabilities		(55,666)		(31,507)
Total Adjustments	(40,060)	(15,232)	24,418	40,121
Net Cash Provided by Operating Activities	$ (219,542)	$ (1,194)	$ 1,106,582	$ 68,406
NONCASH TRANSACTIONS				
Net Change in Fair Value of Investments	$	$ 6,488	$ 36,614	$ 957
Other	$	$	$	$ (2,197)

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$ 6,757	$	$ 8,977	$ 5,381	$ 966,120
95		10	618	5,654
			6	865
			(24)	104,148
556		43,092	(147)	161,255
(13)			(26)	(510)
			1,724	(19,988)
				30,574
			(43)	(43)
989		1	434	(183,800)
		27		27
			(81)	45,456
		29	6	35
		(135,650)	47	(222,776)
1,627	0	(92,491)	2,514	(79,103)
$ 8,384	$ 0	$ (83,514)	$ 7,895	$ 887,017
$	$	$ (115,613)	$	$ (71,554)
$	$	$	$	$ (2,197)

Colleges and Universities – Major Enterprise Fund

There are six university systems and five independent universities in Texas' primary government presented in a single-column as a major fund on the basic financial statements. Schedules have been prepared to report the breakdown of the following universities.

University of Texas System
Texas A&M University System
Texas Tech University System
University of Houston System
Texas State University System
University of North Texas System
Texas Woman's University
Stephen F. Austin State University
Texas Southern University
Midwestern State University
Texas State Technical College

STATE OF TEXAS

Schedule of Net Assets
Colleges and Universities – Major Enterprise Fund

August 31, 2008 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 1,709,952	$ 294,008	$ 393,128	$ 166,138	$ 506,091
Short-Term Investments		197,072		131,751	
Securities Lending Collateral	984,424	184,823			
Restricted:					
Cash and Cash Equivalents	234,744	(8,930)	143,012	11,695	78,838
Short-Term Investments		190,297			198
Loans and Contracts					
Receivables:					
Federal	233,277	94,954	9,234	20,873	29,687
Other Intergovernmental	34,341	23,446			
Accounts	210,476	17,766	8,081	17,544	67,511
Interest and Dividends	44,301	6,188	2,078		283
Gifts	45,217	11,539	33,239	15,691	7,582
Investment Trades	224,651	70,751			
Other	1,016,487	84,577	48,652	1,742	1,467
Due From Other Funds	115,473	138,397	107,869	77,132	71,097
Due From Component Units			18		
Interfund Receivable		14,685			
Inventories	69,817	25,865	4,355	2,330	4,652
Prepaid Items		635	42,629	39,439	8,200
Loans and Contracts	42,506	24,255	2,817	6,641	4,649
Other Current Assets	147,291	53,686	311		26,540
Total Current Assets	5,112,957	1,424,014	795,423	490,976	806,795
Noncurrent Assets:					
Restricted:					
Cash and Cash Equivalents	181		27,143	43,672	31,331
Short-Term Investments					
Investments	21,834,829	673,977	159,826		69,130
Receivables					4,856
Loans and Contracts	94,876	5,286		14,175	1,021
Other					7,493
Loans and Contracts		26,412	3,242		388
Investments	3,293,072	1,373,889	779,759	716,313	33,692
Interfund Receivable		367,945			
Gifts Receivable	152,141	47,747	42,772	16,392	
Capital Assets:					
Nondepreciable	1,792,984	535,997	213,568	170,065	185,490
Depreciable	13,308,241	3,910,534	1,695,666	1,169,404	1,474,825
Accumulated Depreciation	(5,803,304)	(2,222,236)	(834,845)	(713,212)	(767,842)
Assets Held in Trust		362			
Other Noncurrent Assets	36,958	1,186			
Total Noncurrent Assets	34,709,978	4,721,099	2,087,131	1,416,809	1,040,384
Total Assets	39,822,935	6,145,113	2,882,554	1,907,785	1,847,179

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 227,299	$ 11,118	$ 60,131	$ 37,340	$ 4,628	$ 22,153	$ 3,431,986
	32,050			16,409	8,390	385,672
393						1,169,640
34,610	2,418	9,794	259	(564)	1,554	507,430
100	57,006	9,707	46,648	556	4,485	308,997
				15		15
17,432	4,577	1,222	8,710	156	6,310	426,432
367		996	4,582			63,732
39,801	11,156	7,212	19,974	3,740	8,817	412,078
1,752	762	253		182	47	55,846
2,475		253		2,377		118,373
						295,402
	3,114	2,290	1,391	440		1,160,160
69,769	14,344	5,036	27,827	1,891	10,561	639,396
						18
						14,685
2,075	881	544	373	312	2,203	113,407
	993	14,740				106,636
8,387	4,826	1,913				95,994
16,154			10,139	5,600		259,721
420,614	143,245	114,091	157,243	35,742	64,520	9,565,620
		291			148	102,766
		9,181		36,123	244	45,548
68,846	80,503					22,887,111
			20			4,876
5,723		6,078	2,049	98		129,306
				881		8,374
		2,242				32,284
102,974		24,196		14,911		6,338,806
						367,945
902				601		260,555
100,295	10,555	18,994	19,649	23,697	8,415	3,079,709
820,952	288,612	338,111	360,550	160,979	165,561	23,693,435
(408,654)	(128,310)	(180,913)	(191,791)	(77,137)	(102,338)	(11,430,582)
						362
332						38,476
691,370	251,360	218,180	190,477	160,153	72,030	45,558,971
1,111,984	394,605	332,271	347,720	195,895	136,550	55,124,591

Concluded on the following page

STATE OF TEXAS

Schedule of Net Assets
Colleges and Universities – Major Enterprise Fund (concluded)

August 31, 2008 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
LIABILITIES					
Current Liabilities:					
Payables:					
Accounts	$ 802,620	$ 124,018	$ 50,268	$ 34,932	$ 21,794
Payroll	291,638	104,132	57,648	32,703	32,047
Other Intergovernmental	27				10,164
Federal	28,655			1,736	
Investment Trades	1,060,391	64,987			
Interest					
Due To Other Funds	10,712	306		91	7
Interfund Payable	15,614	1,357	344		
Unearned Revenue	945,648	363,771	130,725	151,769	220,805
Obligations/Securities Lending	984,343	184,823			
Claims and Judgments	81,061	12,438	1,863	272	
Capital Lease Obligations	1,389	295			116
Employees' Compensable Leave	270,920	6,132	8,214	10,080	8,919
Notes and Loans Payable	1,169,624	55,375	74,268		
General Obligation Bonds Payable					
Revenue Bonds Payable	1,209,149	82,574	19,600	22,591	38,866
Funds Held for Others	16,017	20,767	23,512	12,498	5,267
Other Current Liabilities	370,109	29,670	17,609	2,847	4,017
Total Current Liabilities	7,257,917	1,050,645	384,051	269,519	342,002
Noncurrent Liabilities:					
Interfund Payable	372,404	5,687	260		
Claims and Judgments	35,071	6,971	16,765	15	
Capital Lease Obligations	3,683	1,266			305
Employees' Compensable Leave	139,643	85,040	29,944	11,689	9,416
Notes and Loans Payable	30,288	107,412			
General Obligation Bonds Payable					
Revenue Bonds Payable	3,198,905	1,178,022	369,445	442,139	633,021
Assets Held for Others	720,032	362			
Net OPEB Obligation	422,678	140,309			
Other Noncurrent Liabilities	24,654	89,773	1,597		1,990
Total Noncurrent Liabilities	4,947,358	1,614,842	418,011	453,843	644,732
Total Liabilities	12,205,275	2,665,487	802,062	723,362	986,734
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	4,492,553	928,495	612,776	283,561	220,200
Restricted for:					
Education	1,519,475	216,526	204,190	115,471	44,156
Debt Retirement	11,202	(12,726)	19,113	5,790	4,239
Capital Projects	(18,981)	17,392	35,248	4,141	155,586
Funds Held as Permanent Investments:					
Nonexpendable	9,366,310	464,722	609,107	350,554	97,572
Expendable	8,473,938	75,450		145,963	16,202
Unrestricted	3,773,163	1,789,767	600,058	278,943	322,490
Total Net Assets	$27,617,660	$ 3,479,626	$ 2,080,492	$ 1,184,423	$ 860,445

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 16,992	$ 2,992	$ 2,990	$ 9,750	$ 2,930	$ 5,616	$ 1,074,902
31,926	4,880	7,377	6,169	3,198	6,726	578,444
			3			10,194
					371	30,762
						1,125,378
		2,205	1,413		82	3,700
3	464	75				11,658
						17,315
118,545	33,788	50,544	35,967	18,815	12,280	2,082,657
393						1,169,559
						95,634
	180	18			543	2,541
1,985	2,071	398	3,045	125	611	312,500
22,071			312			1,321,650
			4,270	1,215	1,445	6,930
11,090	4,508	5,475	6,005	2,520	585	1,402,963
16,566		10,610		112	1,675	107,024
3,615	4,406	3,293	17,781	1,339	479	455,165
223,186	53,289	82,985	84,715	30,254	30,413	9,808,976
						378,351
					335	59,157
	1,993	28			4,151	11,426
14,384	1,411	2,797	339	1,147	5,039	300,849
			579			138,279
			27,909	6,769	9,995	44,673
246,925	60,667	127,760	90,640	82,845	10,660	6,441,029
474	166					721,034
						562,987
2,168	128	1,031	14,604	224	21	136,190
263,951	64,365	131,616	134,071	90,985	30,201	8,793,975
487,137	117,654	214,601	218,786	121,239	60,614	18,602,951
232,720	103,597	51,007	58,692	47,954	47,340	7,078,895
54,147	1,647	13,829	10,887		1,088	2,181,416
425			143		14	28,200
24,203		2,621	5,939	3,484	1,092	230,725
44,039	9,157	6,434	30,012	3,625	393	10,981,925
4,526	80,317	2,720		4,534		8,803,650
264,787	82,233	41,059	23,261	15,059	26,009	7,216,829
$ 624,847	$ 276,951	$ 117,670	$ 128,934	$ 74,656	$ 75,936	$ 36,521,640

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Fund Net Assets
Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
OPERATING REVENUES					
Tuition Revenue	$	$	$ 58,138	$ 365,350	$
Tuition Revenue - Pledged	1,290,956	687,515	210,040		361,950
Discounts and Allowances	(266,947)	(130,426)	(33,293)	(56,859)	(57,071)
Hospital Revenue - Pledged	6,185,545				
Discounts and Allowances	(3,168,917)				
Professional Fees	3,126,151		213,465		
Professional Fees - Pledged	4,500	9,245			
Discounts and Allowances	(2,147,973)				
Auxiliary Enterprises				46,478	
Auxiliary Enterprises - Pledged	350,927	217,652	89,440		95,204
Discounts and Allowances	(8,863)				(8,008)
Other Sales of Goods and Services			5,074	20,155	14,546
Other Sales of Goods and Services - Pledged	294,038	151,590	14,381		
Discounts and Allowances	(329)	(16,626)			
Interest and Investment Income		1,394			40
Interest and Investment Income - Pledged					578
Federal Revenue	1,276,162	386,876	38,748	58,850	31,424
State Grant Revenue	51,245	70,562	9,772	14,176	7,078
Other Operating Grant Revenue	296,550	893	121,118	14,698	6,587
Other Operating Grant Revenue - Pledged	399,478	154,489	4,074		
Other Revenues	6,860			1,172	13,569
Other Revenues - Pledged	88,604	59,837			
Total Operating Revenues	7,777,987	1,593,001	730,957	464,020	465,897
OPERATING EXPENSES					
Cost of Goods Sold	96,351	18,686		3,038	6,878
Salaries and Wages	5,333,038	1,331,437	597,981	437,261	376,308
Payroll Related Costs	1,261,852	309,152	134,532	92,028	81,351
Professional Fees and Services	383,069	222,228	63,237	40,597	35,976
Travel	129,998	70,505	14,875	14,401	13,109
Materials and Supplies	1,091,055	209,496	87,304	41,581	68,847
Communication and Utilities	343,731	124,497	48,944	50,299	37,493
Repairs and Maintenance	186,490	80,429	25,660	9,603	16,369
Rentals and Leases	109,638	43,453	11,248	12,707	8,880
Printing and Reproduction	20,865	14,525	7,801	5,338	4,470
Depreciation and Amortization	679,831	137,311	61,087	41,232	47,864
Bad Debt Expense	3,940	734	36		262
Interest Expense		252		72	37
Scholarships	276,044	121,896	46,754	56,621	56,748
Claims and Judgments	11,838	(14,061)	566	951	81
Net Change in Pension/OPEB Obligations	422,678	140,309			
Other Expenses	721,183	174,037	67,481	33,045	27,900
Total Operating Expenses	11,071,601	2,984,886	1,167,506	838,774	782,573
Operating Loss	(3,293,614)	(1,391,885)	(436,549)	(374,754)	(316,676)

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 84,578	$ 59,964	$ 3,437	$	$	$ 2,597	$ 574,064
142,086	441	67,239	56,403	24,711	25,618	2,866,959
(27,678)	(9,350)	(13,393)	(14,162)		(9,043)	(618,222)
						6,185,545
						(3,168,917)
79,625						3,419,241
						13,745
						(2,147,973)
1,162	9,091	1,152			1,101	58,984
40,525	10,216	30,791	8,796	5,541	12,384	861,476
(116)	(2,841)	(5,421)			(2,929)	(28,178)
23,054		1,029				63,858
		4,428	40	969	6,767	472,213
						(16,955)
		190				1,624
					588	1,166
38,999	3,836	6,208	19,687	1,732	6,556	1,869,078
2,857	673	838	1,410		994	159,605
7,059		866	2,172		145	450,088
	265			10		558,316
199	1,189		4,970			27,959
		4		1,296		149,741
392,350	73,484	97,368	79,316	34,259	44,778	11,753,417
1,595	224	7,793			4,478	139,043
307,485	76,075	75,960	70,068	33,222	67,110	8,705,945
66,158	17,183	18,332	16,799	8,096	19,932	2,025,415
27,046	1,725	1,625	14,236	3,111	1,452	794,302
7,924	1,704	2,279	1,825	1,538	1,262	259,420
45,846	11,306	15,038	9,183	5,072	12,440	1,597,168
18,227	7,431	11,789	5,708	3,761	7,713	659,593
13,725	3,929	3,896	4,242	1,817	2,885	349,045
6,168	1,149	2,110	3,749	440	1,153	200,695
3,984	552	698	573	319	152	59,277
31,415	10,991	9,940	12,445	6,024	5,280	1,043,420
5,984	607	317	1,290	224		13,394
					2	363
39,308	7,599	13,152	19,581	5,810	14,935	658,448
			49		2	(574)
						562,987
36,036	5,946	5,682	4,210	555	10,649	1,086,724
610,901	146,421	168,611	163,958	69,989	149,445	18,154,665
(218,551)	(72,937)	(71,243)	(84,642)	(35,730)	(104,667)	(6,401,248)

Concluded on the following page

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Fund Net Assets
Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	University of Texas System*	Texas A & M University System*	Texas Tech University System	University of Houston System	Texas State University System
NONOPERATING REVENUES (EXPENSES)					
Federal Revenue	$ 158,309	$ 112,801	$ 22,552	$ 43,362	$ 52,303
Gifts	352,374		94,668	66,128	24,724
Gifts - Pledged	16,412	95,330	3,727		
Land Income		5,469			
Interest and Investment Income (Loss)	(471,463)		(18,368)	79,449	8,726
Interest and Investment Income - Pledged	341,026	(47,290)	21,622		
Investing Activities Expense	(101,755)	(9,777)			(1,611)
Interest Expense	(161,687)	(56,631)	(18,635)	(13,718)	(14,153)
Borrower Rebates and Agent Fees		(703)			
Gain on Sale of Capital Assets		261			
Claims and Judgments		(2,178)			(256)
Other Revenues	132,795		5,969	(36,163)	3,494
Other Revenues - Pledged	1,174	22,931	7,628		
Other Expenses	(30,029)	(12,892)	(3,115)		(275)
Total Nonoperating Revenues (Expenses)	237,156	107,321	116,048	139,058	72,952
Loss Before Capital Contributions, Endowments and Transfers	(3,056,458)	(1,284,564)	(320,501)	(235,696)	(243,724)
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS					
Capital Contributions - Federal	27,412				
Capital Contributions (Distributions) - Other	166,833	37,711	9,651	(2)	49
Contributions to Permanent and Term Endowments	143,566	9,070	2,719	11,827	(647)
Transfer In	2,191,733	1,247,847	668,518	352,099	338,342
Transfer Out	(192,897)	(38,084)	(14,103)	(6,293)	(221,240)
Total Capital Contributions, Endowments and Transfers	2,336,647	1,256,544	666,785	357,631	116,504
Change in Net Assets	(719,811)	(28,020)	346,284	121,935	(127,220)
Net Assets, September 1, 2007	28,349,488	3,511,915	1,734,208	1,063,187	987,687
Restatements	(12,017)	(4,269)		(699)	(22)
Net Assets, September 1, 2007, as Restated	28,337,471	3,507,646	1,734,208	1,062,488	987,665
Net Assets, August 31, 2008	$ 27,617,660	$ 3,479,626	$ 2,080,492	$ 1,184,423	$ 860,445

* Other postemployment benefits are not legally required to be provided by the state of Texas. The Texas Constitution does not allow the Legislature to impose financial obligations for a period longer than two years. See Note 11 for additional details.

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 19,920	$ 7,698	$ 11,224	$ 17,995	$ 4,501	$ 16,931	$ 467,596
7,704		2,432		3,587	51	551,668
	3,976	36	495			119,976
		3				5,472
13,466	6,461	(322)	1,420	97		(380,534)
	66	2,731	(3,078)	1,645	921	317,643
		(80)	(208)			(113,431)
(12,701)	(2,058)	(5,217)	(6,472)	(1,863)	(1,137)	(294,272)
						(703)
						261
(967)		(12)			(63)	(3,476)
31		3			185	106,314
	1,890	34	983			34,640
(426)	(904)	(122)		(152)	(4,434)	(52,349)
27,027	17,129	10,710	11,135	7,815	12,454	758,805
(191,524)	(55,808)	(60,533)	(73,507)	(27,915)	(92,213)	(5,642,443)
						27,412
5,626		372		1,962	595	222,797
177		137	659	184		167,692
250,224	75,918	67,066	102,502	28,318	92,209	5,414,776
(2,847)	(1,979)	(1,757)	(121)	(439)	(702)	(480,462)
253,180	73,939	65,818	103,040	30,025	92,102	5,352,215
61,656	18,131	5,285	29,533	2,110	(111)	(290,228)
563,191	258,986	113,092	104,692	72,546	76,177	36,835,169
	(166)	(707)	(5,291)		(130)	(23,301)
563,191	258,820	112,385	99,401	72,546	76,047	36,811,868
$ 624,847	$ 276,951	$ 117,670	$ 128,934	$ 74,656	$ 75,936	$ 36,521,640

STATE OF TEXAS

Schedule of Cash Flows
Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	$ 3,930,897	$ 135,673	$ 215,815	$ 20,498	$ 22,630
Proceeds from Tuition and Fees	1,013,056	604,303	230,611	335,477	300,183
Proceeds from Research Grants and Contracts	2,064,993	723,851	169,764	77,483	29,439
Proceeds from Gifts					12,364
Proceeds from Loan Programs	89,313	5,614	3,435	63,696	5,198
Proceeds from Auxiliaries	370,259	197,886	94,075	47,947	86,451
Proceeds from Other Revenues	391,878	58,249	14,239	24,130	18,502
Payments to Suppliers for Goods and Services	(2,757,066)	(999,722)	(265,305)	(171,911)	(220,581)
Payments to Employees	(6,605,333)	(1,624,840)	(591,921)	(525,739)	(456,999)
Payments for Loans Provided	(98,072)	(6,850)	(1,435)	(68,822)	(10,772)
Payments for Other Expenses	(5,619)	(169,165)	(260,440)	(117,172)	(54,549)
Net Cash Provided by Operating Activities	(1,605,694)	(1,075,001)	(391,162)	(314,413)	(268,134)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Proceeds from State Appropriations	1,918,133	942,913	347,185	262,475	270,234
Proceeds from Gifts	323,347	101,125	87,928	35,055	18,131
Proceeds from Endowments	176,847	9,071		20,290	10,731
Proceeds from Transfers from Other Funds	227,023	254,089	78,339	46,779	33,516
Proceeds from Grant Receipts	158,309	108,041	22,552	43,361	52,620
Proceeds from Other Financing Activities	12,304	52,603	4,285		897
Payments of Principal on Debt Issuance					
Payments of Interest					
Payments of Other Costs on Debt Issuance					
Payments for Transfers to Other Funds	(416,880)	(28,656)	(15,375)	(35,535)	(72,908)
Payments for Grant Disbursements					(76)
Payments for Advances to Other Funds					(21)
Payments for Other Uses	(428,100)	(60,596)	(19)	(17,514)	(10,553)
Net Cash Provided by Noncapital Financing Activities	1,970,983	1,378,590	524,895	354,911	302,571
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Sale of Capital Assets	1,042	1,902			
Proceeds from Debt Issuance	2,004,395	391,165	45,858		216,156
Proceeds from State Grants and Contracts		22,092			
Proceeds from Federal Grants and Contracts		2,735			
Proceeds from Gifts			9,594		
Proceeds from Other Financing Activities					2,439
Proceeds from Capital Contributions	132,468		43,890	53,188	216
Proceeds of Advances from Other Funds					57,145
Payments for Additions to Capital Assets	(1,563,029)	(359,469)	(124,768)	(23,147)	(99,617)
Payments of Principal on Debt Issuance	(1,142,479)	(293,801)	(32,503)	(64,649)	(63,621)
Payments for Capital Leases		(39)			(143)
Payments of Interest on Debt Issuance	(160,046)	(56,602)	(20,033)	(13,597)	(24,955)
Payments of Other Costs on Debt Issuance	(30,367)	(2,153)	(54)	(909)	(21,401)
Net Cash Provided by Capital and Related Financing Activities	(758,016)	(294,170)	(78,016)	(49,114)	66,219

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 104,833	$	$	$	$	$ 6,645	$ 4,436,991
197,548	51,054	58,219	35,776	27,028	28,444	2,881,699
46,305	4,774	8,052	20,980			3,145,641
						12,364
8,120				40		175,416
42,804		28,045	8,796	5,712	10,429	892,404
827	17,656	5,926	7,367	3,184		541,958
(147,264)	(34,173)	(52,577)	(49,925)	(14,638)	(40,133)	(4,753,295)
(372,776)	(93,257)	(93,648)	(85,783)	(40,158)	(85,583)	(10,576,037)
(8,711)		(692)				(195,354)
(56,082)	(13,544)	(13,797)		(6,783)	(18,871)	(716,022)
(184,396)	(67,490)	(60,472)	(62,789)	(25,615)	(99,069)	(4,154,235)
198,250	75,034	56,076	82,533	23,912	81,657	4,258,402
7,526		2,468	1,845	3,587	51	581,063
177		708		109		217,933
15,832	3,906	7,397	3,888	1,941	10,426	683,136
19,920	7,697	11,224	17,995	4,501	16,931	463,151
2,646	5,866				26	78,627
(218)						(218)
(118)						(118)
(10)						(10)
(7,199)	(1,059)	(2,997)	(1,357)	(1,476)	(1,645)	(585,087)
						(76)
						(21)
(3,156)	(3,942)	(14)		(2)	(4,081)	(527,977)
233,650	87,502	74,862	104,904	32,572	103,365	5,168,805
		43				2,987
8,885	21,670	20,183		38,300	3,196	2,749,808
						22,092
						2,735
				2,366		11,960
		40	156	731		3,366
20,406		569		3,434	383	254,554
		7,026				64,171
(44,878)	(11,578)	(18,995)	(7,589)	(31,195)	(10,284)	(2,294,549)
(18,151)	(3,495)	(7,169)	(13,010)	(2,575)	(4,558)	(1,646,011)
	(171)					(353)
(12,774)		(5,008)	(6,559)	(1,557)	(1,131)	(302,262)
(3)	(2,058)	(171)		(240)	(55)	(57,411)
(46,515)	4,368	(3,482)	(27,002)	9,264	(12,449)	(1,188,913)

Concluded on the following page

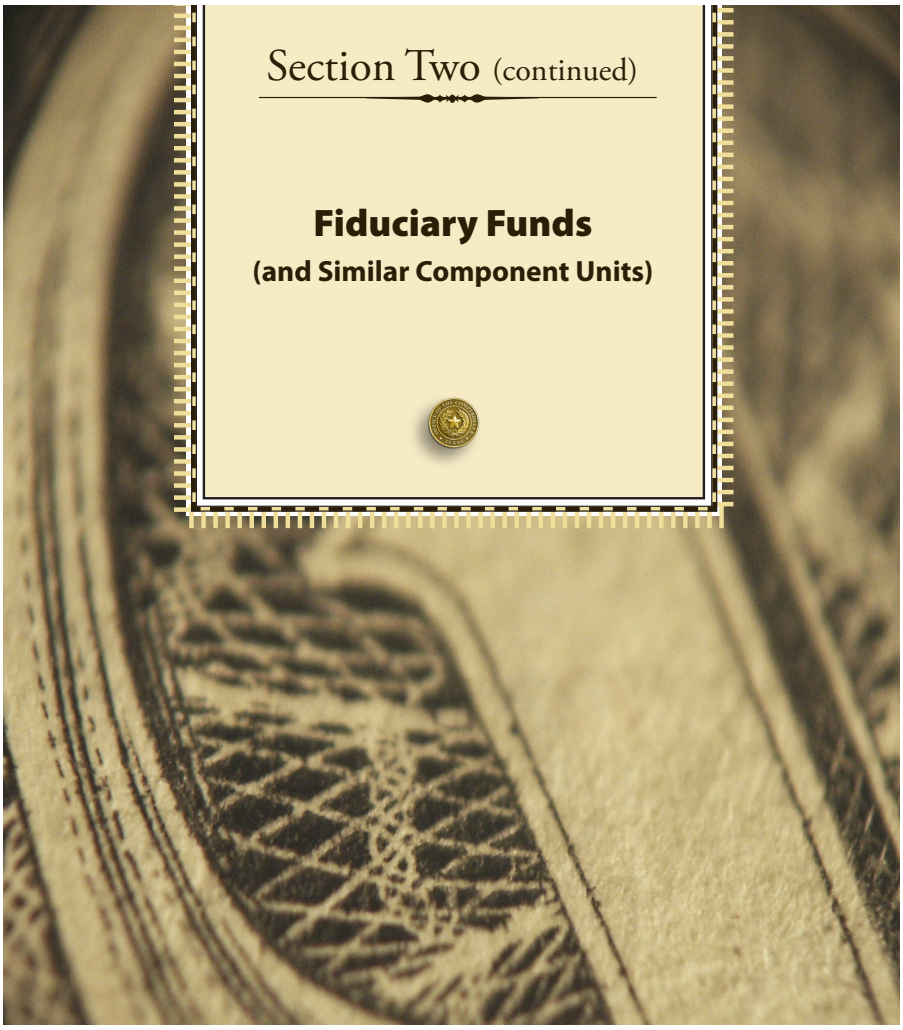
STATE OF TEXAS

Schedule of Cash Flows
Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Investments	$29,760,191	$ 3,571,130	$ 196,716	$ 730,805	$ 4,892
Proceeds from Interest and Investment Income	1,104,269	67,647	33,187	215,932	17,428
Proceeds from Principal Payments on Loans					
Payments to Acquire Investments	(30,408,493)	(3,621,249)	(127,532)	(925,099)	(5,847)
Net Cash Provided by Investing Activities	455,967	17,528	102,371	21,638	16,473
Net Increase (Decrease) in Cash and Cash Equivalents	63,240	26,947	158,088	13,022	117,129
Cash and Cash Equivalents, September 1, 2007	1,881,637	259,167	405,195	208,483	499,131
Restatements		(1,036)			
Cash and Cash Equivalents, September 1, 2007, as Restated	1,881,637	258,131	405,195	208,483	499,131
Cash and Cash Equivalents, August 31, 2008	$ 1,944,877	$ 285,078	$ 563,283	$ 221,505	$ 616,260
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Loss	$ (3,293,614)	$ (1,391,885)	$ (436,549)	$ (374,754)	$ (316,676)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:					
Depreciation and Amortization	679,831	137,311	61,087	41,232	47,864
Bad Debt Expense	240,458	3,622	36	162	262
Operating Loss and Cash Flow Categories Classification Differences		127		(8,565)	4,517
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables	(382,108)	(42,103)	(11,799)	7,113	(26,417)
(Increase) Decrease in Due From Other Funds		(2,278)	(430)		435
(Increase) Decrease in Inventories	(2,927)	(429)	(503)	703	(593)
(Increase) Decrease in Notes Receivable			384		109
(Increase) Decrease in Loans and Contracts	(8,760)	(2,226)		(977)	1,154
(Increase) Decrease in Other Assets	(14,451)	1,320	1,003	66	1,320
(Increase) Decrease in Prepaid Expenses		(25,323)	(8,563)	(15,589)	(3,182)
(Increase) Decrease in State Appropriations					(4,150)
Increase (Decrease) in Payables	540,635	56,317	(91)	(52)	5,536
Increase (Decrease) in Deposits	2,491	(182)			119
Increase (Decrease) in Due To Other Funds			(41)		323
Increase (Decrease) in Unearned Revenue	64,359	50,477	957	29,297	19,083
Increase (Decrease) in Compensated Absence Liability	25,482	3,281	3,089	1,901	260
Increase (Decrease) in Benefits Payable	422,678	137,412		425	
Increase (Decrease) in Other Liabilities	120,232	(442)	258	4,625	1,902
Total Adjustments	1,687,920	316,884	45,387	60,341	48,542
Net Cash Provided by Operating Activities	$ (1,605,694)	$ (1,075,001)	$ (391,162)	$ (314,413)	$ (268,134)
NONCASH TRANSACTIONS					
Net Change in Fair Value of Investments	$ (1,880,541)	$ (124,556)	$ (44,858)	$ 20,888	$ (4,969)
Donation of Capital Assets	$ 72,490	$ 21,926	$	$	$ (503)
Borrowing Under Capital Lease Purchase	$ 3,480	$	$	$	$ 385
Other	$ (23,912)	$ (10,648)	$	$	$ 6,844

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 49,537	$ 71,656			$ 22,085	$ 8,333	$ 34,415,345
16,516	6,461	2,530	2,164	1,180	1,555	1,468,869
			53			53
(17,940)	(106,239)	(10,861)	(3,082)	(38,158)	(3,923)	(35,268,423)
48,113	(28,122)	(8,331)	(865)	(14,893)	5,965	615,844
50,852	(3,742)	2,577	14,248	1,328	(2,188)	441,501
210,986	17,278	67,639	23,670	2,736	26,043	3,601,965
71			(319)			(1,284)
211,057	17,278	67,639	23,351	2,736	26,043	3,600,681
$ 261,909	$ 13,536	$ 70,216	$ 37,599	$ 4,064	$ 23,855	$ 4,042,182
$ (218,551)	$ (72,937)	$ (71,243)	$ (84,642)	$ (35,730)	$ (104,667)	$ (6,401,248)
31,415	10,991	9,940	12,445	6,024	5,280	1,043,420
5,984	607			224		251,355
					(588)	(4,509)
(7,877)	(361)	(913)	(4,379)	800	394	(467,650)
	(157)	(1,353)	(3,508)		(9)	(7,300)
600	(36)	(46)	173	(5)	287	(2,776)
						493
(835)		(692)		40		(12,296)
(1,016)		(1,200)				(12,958)
(2,596)	91		1,507	(1,157)		(54,812)
	(4,497)					(8,647)
1,457	(3,708)	294	3,453	2,547	1,513	607,901
					483	2,911
	136	75	(29)			464
6,981	2,639	3,629	1,423	1,089	605	180,539
	129	266	(103)		510	34,815
						560,515
42	(387)	771	10,871	553	(2,877)	135,548
34,155	5,447	10,771	21,853	10,115	5,598	2,247,013
$ (184,396)	$ (67,490)	$ (60,472)	$ (62,789)	$ (25,615)	$ (99,069)	$ (4,154,235)
$ (2,828)	$ 66	$ (171)	$ (3,078)	$ (245)	$	$ (2,040,292)
$	$	$	$	$ 9	$ (47)	$ 93,875
$	$	$	$	$	$	$ 3,865
$ (99)	$	$	$	$ (57)	$ (42)	$ (27,914)



Section Two (continued)

Fiduciary Funds
(and Similar Component Units)

Pension and Other Employee Benefit Trust Funds

The **Teacher Retirement System Trust Account** is for the accumulation of resources for pension benefit payments for qualified employees of public education in Texas.

The **S.E.R.S. Trust Account** is for the accumulation of resources for pension benefit payments to qualified state employees or beneficiaries.

The **Law Enforcement and Custodial Officer Supplement Retirement Fund** provides supplemental retirement and death benefits for members of the Employees Retirement System of Texas who have completed 20 or more years of service or have become occupationally disabled or died while serving as commissioned law enforcement officers of a state agency.

The **Judicial Retirement System – Plan Two Trust Fund** accounts for receipt of monies for retirement and death benefits for certain state-paid judges and judicial officers.

The **Fire Fighters' Relief and Retirement Fund** accounts for the accumulation of resources for pension, death and disability benefits for fire fighters who serve without monetary reward.

The **Judicial Retirement System – Plan One Fund** accounts for appropriations received from the state's general revenue fund for annuity and refund payments to eligible judicial employees.

The **Retired School Employees Group Insurance Trust** receives contributions and other funds authorized to be deposited in the fund to pay insurance premiums, to reimburse for claims paid by a non-state entity and to pay administrative expenses. The Teacher Retirement System of Texas, as trustee, administers the fund for public school retirees and their dependents. The public school entities are not considered part of the reporting entity for the state of Texas.

The **State Retiree Health Plan Trust** accounts for the receipt of monies for postemployment health care, life and dental insurance benefits provided under the Group Benefits Program. The Employees Retirement System of Texas, as trustee, administers the fund for retired employees of the state and other non-state entities as specified by the Legislature.

The **Deferred Compensation Trust Fund** receives employee deferrals in accordance with Internal Revenue Code 457, appropriations by the state for the administration of the deferred compensation plan, trust income and fees. The state of Texas is the only employer participating in the plan.

The **State Employee Cafeteria Plan Trust Fund** receives salary reduction payments and makes disbursements for benefits included in a cafeteria plan, other than Employees Uniform Group Insurance Program coverages. The fund also receives appropriations by the state for the administration of the cafeteria plan.

The **Texa$aver Administrative Trust Fund** receives deferrals, purchases qualified investments and pays expenses associated with administration of the deferred compensation plan.

STATE OF TEXAS

Combining Statement of Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds

August 31, 2008 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Fire Fighters' Relief and Retirement Fund
ASSETS					
Cash and Cash Equivalents	$ 14,859,732	$ 48,509	$ 1,661	$ 771	$ 562
Securities Lending Collateral	19,347,275	6,020,855	199,475	50,235	
Investments:					
U.S. Government	10,846,463	5,597,755	185,458	46,704	
Corporate Equity	32,698,144	9,241,436	306,176	77,104	25,772
Corporate Obligations	4,649,425	2,514,372	83,303	20,978	
Repurchase Agreements	880,995				
Foreign Securities	23,359,880	3,840,210	127,229	32,040	13,185
Other	17,730,046	140,303	4,680	1,019	16,018
Receivables:					
Interest and Dividends	319,128	123,892	3,838	2,192	37
Accounts	113,553	53,450	5	1,249	754
Investment Trades	63,134	64,661	2,141	539	
Other	384				
Due From Other Funds	107,152	5,977		33,614	
Properties, at Cost, Net of Accumulated Depreciation	27,956	7,521			
Other Assets					
Total Assets	125,003,267	27,658,941	913,966	266,445	56,328
LIABILITIES					
Payables:					
Accounts	$ 5,637	$ 21,344	$ 252	$ 77	$ 143
Investment Trades	182,710	120,986	4,007	1,008	
Payroll	105				
Annuities	520,210	82	1		
Due To Other Funds	4,532	29,387	5,291	85	
Unearned Revenue	28,152				206
Employees' Compensable Leave	4,149	2,022			
Obligations/Securities Lending	19,699,519	6,053,723	200,564	50,509	
Total Liabilities	20,445,014	6,227,544	210,115	51,679	349
NET ASSETS					
Held in Trust for Pension Benefits and Other Purposes	$104,558,253	$ 21,431,397	$ 703,851	$ 214,766	$ 55,979

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	Texa$aver Administrative Trust Fund	Totals
$	$ 256,966	$ 12,431	$ 1,212	$ 3,607	$ 1,383	$ 15,186,834
						25,617,840
						16,676,380
						42,348,632
						7,268,078
						880,995
						27,372,544
	514,884	39				18,406,989
	1,837	16	2	11	4	450,957
27	54,694	9,034	3	6,008		238,777
						130,475
						384
324	24,318	76,325		5		247,715
						35,477
				250		250
351	852,699	97,845	1,217	9,881	1,387	154,862,327
$ 324	$ 123,718	$ 96,627	$ 55	$ 8,908		$ 257,085
						308,711
						105
						520,293
		707	43	35	48	40,128
		511	3			28,872
	142					6,313
						26,004,315
324	123,860	97,845	101	8,943	48	27,165,822
$ 27	$ 728,839	$ 0	$ 1,116	$ 938	$ 1,339	$127,696,505

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Fire Fighters' Relief and Retirement Fund
ADDITIONS					
Contributions:					
Member Contributions	$ 2,085,349	$ 337,040	$	$ 3,964	$ 2,889
State Contributions	1,542,386	342,092	20,192	11,138	
Premium Contributions					
Federal Contributions					
Other Contributions	515,175				
Total Contributions	4,142,910	679,132	20,192	15,102	2,889
Investment Income:					
From Investing Activities:					
Net Depreciation in					
Fair Value of Investments	(8,344,716)	(2,153,723)	(71,354)	(17,970)	(6,978)
Interest and Investment Income	3,203,523	827,918	27,426	6,917	3,605
Total Investing Income (Loss)	(5,141,193)	(1,325,805)	(43,928)	(11,053)	(3,373)
Less Investing Activities Expense	27,957	34,095	1,170	262	
Net Income (Loss) from Investing Activities	(5,169,150)	(1,359,900)	(45,098)	(11,315)	(3,373)
From Securities Lending Activities:					
Securities Lending Income	929,696	249,049	8,251	2,078	
Less Securities Lending Expense:					
Borrower Rebates	682,746	210,287	6,967	1,754	
Management Fees	33,643	5,793	192	48	
Net Income from Securities Lending	213,307	32,969	1,092	276	0
Total Net Investment Income (Loss)	(4,955,843)	(1,326,931)	(44,006)	(11,039)	(3,373)
Other Additions:					
Settlement of Claims					25
Other Revenue		167			
Loss on Sale of Properties		(10)			
Transfer In	8,950	53,011			8,800
Total Other Additions	8,950	53,168	0	0	8,825
Total Additions	(803,983)	(594,631)	(23,814)	4,063	8,341
DEDUCTIONS					
Benefits	6,410,562	1,353,583	34,908	6,644	2,732
Refunds of Contributions	275,482	74,504		74	
Transfer Out	53,011	9,308			
Administrative Expenses	26,632	14,830	348	232	592
Depreciation Expense	446	660			
Interest Expense					
Other Expenses	431	758	18	12	2
Total Deductions	6,766,564	1,453,643	35,274	6,962	3,326
INCREASE (DECREASE) IN NET ASSETS	(7,570,547)	(2,048,274)	(59,088)	(2,899)	5,015
NET ASSETS					
Net Assets, September 1, 2007	112,128,800	23,479,671	762,939	217,665	50,964
Net Assets, August 31, 2008	$104,558,253	$ 21,431,397	$ 703,851	$ 214,766	$ 55,979

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust	State Retiree Health Plan Trust	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	Texa$aver Administrative Trust Fund	Totals
$	$	$	$	$ 75,807	$	$ 2,505,049
	238,372	417,106				2,571,286
	652,098	109,447				761,545
	59,486	32,964				92,450
				973		516,148
0	949,956	559,517	0	76,780	0	6,446,478
						(10,594,741)
	29,252	1,363	52	73	119	4,100,248
0	29,252	1,363	52	73	119	(6,494,493)
		1	2		3	63,490
0	29,252	1,362	50	73	116	(6,557,983)
						1,189,074
						901,754
						39,676
0	0	0	0	0	0	247,644
0	29,252	1,362	50	73	116	(6,310,339)
						25
	92		234	95	464	1,052
						(10)
28,684			358			99,803
28,684	92	0	592	95	464	100,870
28,684	979,300	560,879	642	76,948	580	237,009
28,657	870,257	558,228		75,043		9,340,614
						350,060
						62,319
	2,997	2,535	529	399	565	49,659
						1,106
				140		140
	4	116	18	1,619	16	2,994
28,657	873,258	560,879	547	77,201	581	9,806,892
27	106,042	0	95	(253)	(1)	(9,569,883)
	622,797		1,021	1,191	1,340	137,266,388
$ 27	$ 728,839	$ 0	$ 1,116	$ 938	$ 1,339	$127,696,505

Private-Purpose Trust Funds

The **Tobacco Settlement Permanent Trust (Political Subdivisions)** holds the portion of the tobacco settlement money designated for the exclusive benefit of other political subdivisions. Other political subdivisions include cities, counties and/or local hospital districts that are responsible for indigent health care. The fund is administered by the Comptroller's office - Treasury Fiscal.

The **Texas Insurance Companies Assets Account – Reserve and Custodial Fund** holds assets in trust for claims associated with insurance company liquidations. Most balances are normally held outside the Treasury. The Department of Insurance administers the fund.

The **Catastrophe Reserve Trust Fund** is a state fund that was created to provide relief to insurance companies within the state in the event of certain catastrophic losses. Certain property insurers authorized to transact property insurance in Texas make payments to the fund.

The **Inmate Trust and Employee Service Option Fund** accounts for offender commissary and medical accounts along with the Texas Department of Criminal Justice employee commissary, laundry and/or barber contributions.

The **Texas Tomorrow Trust Fund** receives money contributed by college saving plan account holders, money acquired from private sources and income from investment of deposits. The fund may be used only to pay costs of program administration and operations, make payments to institutions of higher education or private or independent institutions and make refunds to college saving plan account holders.

STATE OF TEXAS

Combining Statement of Fiduciary Net Assets – Private-Purpose Trust Funds

August 31, 2008 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas Tomorrow Trust Fund	Other Private-Purpose Trust Funds	Totals
ASSETS							
Cash and Cash Equivalents	$	$ 623	$	$ 6,485	$ 231	$ 37,073	$ 44,412
Restricted Cash and Cash Equivalents						789	789
Securities Lending Collateral	32,763						32,763
Investments:							
U.S. Government		2,795		16,228		2,183	21,206
Corporate Equity	723,376					15,231	738,607
Corporate Obligations	78,158					4,161	82,319
Repurchase Agreements		197,628	368,908			1,710	568,246
Other	1,358,567				232,636	10,132	1,601,335
Receivables:							
Interest and Dividends	2,749				360	39	3,148
Accounts					39	295	334
Investment Trades	1,181				393		1,574
Other						1,708	1,708
Due From Other Funds				32			32
Inventories						1	1
Properties, at Cost, Net of Accumulated Depreciation						997	997
Other Assets		76,470					76,470
Total Assets	2,196,794	277,516	368,908	22,745	233,659	74,319	3,173,941
LIABILITIES							
Payables:							
Accounts	$ 1,103	$	$	$ 505	$ 105	$ 13,261	$ 14,974
Investment Trades	2,423				349		2,772
Interest						44	44
Unearned Revenue					174	2	176
Obligations/Securities Lending	32,763						32,763
Funds Held for Others		76,469					76,469
Other Liabilities					39		39
Total Liabilities	36,289	76,469	0	505	667	13,307	127,237
NET ASSETS							
Net Assets Held in Trust for Individuals, Organizations and Other Governments	2,160,505	201,047	368,908	22,240	232,992	61,012	3,046,704
Total Net Assets	$ 2,160,505	$ 201,047	$ 368,908	$ 22,240	$ 232,992	$ 61,012	$ 3,046,704

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Assets – Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund	Texas Tomorrow Trust Fund	Other Private-Purpose Trust Funds	Totals
ADDITIONS							
Contributions:							
Federal Contributions	$	$	$	$	$	$ 13,760	$ 13,760
Other Contributions					84,029		84,029
Total Contributions	0	0	0	0	84,029	13,760	97,789
Investment Income:							
From Investing Activities:							
Net Depreciation in Fair Value of Investments	(167,841)				(22,937)	(3,459)	(194,237)
Interest and Investment Income	24,866	6,289	13,075		5,037	3,395	52,662
Total Investing Income (Loss)	(142,975)	6,289	13,075	0	(17,900)	(64)	(141,575)
Less Investing Activities Expense					1,021		1,021
Net Income (Loss) from Investing Activities	(142,975)	6,289	13,075	0	(18,921)	(64)	(142,596)
From Securities Lending Activities:							
Securities Lending Income	2,155						2,155
Less Securities Lending Expense:							
Borrower Rebates	2,000						2,000
Net Income from Securities Lending	155	0	0	0	0	0	155
Total Net Investment Income (Loss)	(142,820)	6,289	13,075	0	(18,921)	(64)	(142,441)
Other Additions:							
Settlement of Claims						3,403	3,403
Other Revenue		63,401	74,336	118,702	63	2,483	258,985
Transfer In						10	10
Total Other Additions	0	63,401	74,336	118,702	63	5,896	262,398
Total Additions	(142,820)	69,690	87,411	118,702	65,171	19,592	217,746
DEDUCTIONS							
Benefits					55,879	548	56,427
Transfer Out			1,000			754	1,754
Intergovernmental Payments	92,304					4,345	96,649
Administrative Expenses	6,989				66	197	7,252
Depreciation Expense						39	39
Settlement of Claims		53,624				3,816	57,440
Interest Expense						21	21
Other Expenses		5,264	100,075	116,691		12,035	234,065
Total Deductions	99,293	58,888	101,075	116,691	55,945	21,755	453,647
INCREASE (DECREASE) IN NET ASSETS	(242,113)	10,802	(13,664)	2,011	9,226	(2,163)	(235,901)
NET ASSETS							
Net Assets, September 1, 2007	2,402,618	190,245	382,572	20,229	223,766	63,175	3,282,605
Net Assets, August 31, 2008	$ 2,160,505	$ 201,047	$368,908	$ 22,240	$ 232,992	$ 61,012	$3,046,704

Agency Funds

The **Texas Public Finance Authority Bond Escrow Account** is used to hold funds for various defeased or refunded bonds.

The **Life, Health, Accident and Casualty Insurance Companies Trust Account** holds cash or securities deposited with the state by insurance companies as required by law.

The **Texas Workers' Compensation Self-Insurance Fund** is used to deposit certified self-insurer security deposits. These deposits may be applied to the self-insurer's incurred liabilities for compensation.

The **City, County, Metropolitan Transit Authority (MTA) and Special Purpose District (SPD) Sales Tax Trust Account** is used to record the receipt of local sales and use tax collected by the Comptroller for each city, county, metropolitan transit authority and special purpose district authorizing the collection.

STATE OF TEXAS

Combining Statement of Fiduciary Net Assets – Agency Funds

August 31, 2008 (Amounts in Thousands)

	Texas Public Finance Authority Bond Escrow Account	Life, Health, Accident and Casualty Insurance Companies Trust Account	Texas Workers' Compensation Self Insurance Fund	City, County, MTA and SPD Sales Tax Trust Account	Other Agency Funds	Totals
ASSETS						
Cash and Cash Equivalents	$ 4	$ 271	$ 4,067	$ 782,224	$ 368,164	$1,154,730
Investments:						
U.S. Government	324,257				205	324,462
Corporate Equity					160,239	160,239
Corporate Obligations					125	125
Repurchase Agreements					47,676	47,676
Other					26,212	26,212
Receivables:						
Other Intergovernmental					1,338	1,338
Interest and Dividends	1,154				5	1,159
Accounts					8,525	8,525
Other					8	8
Due From Other Funds					1,332	1,332
Other Assets		1,058,431	714,044		102,989	1,875,464
Total Assets	$ 325,415	$1,058,702	$ 718,111	$ 782,224	$ 716,818	$3,601,270
LIABILITIES						
Payables:						
Accounts	$	$	$	$	$ 22	$ 22
Other Intergovernmental				782,224	9,496	791,720
Due To Other Funds					414	414
Funds Held for Others	325,415	1,058,702	718,111		706,886	2,809,114
Total Liabilities	$ 325,415	$1,058,702	$ 718,111	$ 782,224	$ 716,818	$3,601,270

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Beginning Balance September 1, 2007	Additions	Deductions	Ending Balance August 31, 2008
Texas Public Finance Authority Bond Escrow Account				
ASSETS				
Cash and Cash Equivalents	$ 38	$	$ 34	$ 4
Investments	235,832	88,479	54	324,257
Interest and Dividends Receivable	1,263		109	1,154
Total Assets	$ 237,133	$ 88,479	$ 197	$ 325,415
LIABILITIES				
Funds Held for Others	$ 237,133	$ 88,336	$ 54	$ 325,415
Total Liabilities	$ 237,133	$ 88,336	$ 54	$ 325,415
Life, Health, Accident and Casualty Insurance Companies Trust Account				
ASSETS				
Cash and Cash Equivalents	$ 215	$ 271	$ 215	$ 271
Other Assets	883,987	234,777	60,333	1,058,431
Total Assets	$ 884,202	$ 235,048	$ 60,548	$ 1,058,702
LIABILITIES				
Funds Held for Others	$ 884,202	$ 235,048	$ 60,548	$ 1,058,702
Total Liabilities	$ 884,202	$ 235,048	$ 60,548	$ 1,058,702
Texas Workers' Compensation Self Insurance Fund				
ASSETS				
Cash and Cash Equivalents	$ 15,750	$ 33,111	$ 44,794	$ 4,067
Other Assets	687,184	26,860		714,044
Total Assets	$ 702,934	$ 59,971	$ 44,794	$ 718,111
LIABILITIES				
Accounts Payable	$	$ 12,568	$ 12,568	$
Funds Held for Others	702,934	44,063	28,886	718,111
Total Liabilities	$ 702,934	$ 56,631	$ 41,454	$ 718,111
City, County, MTA and SPD Sales Tax Trust Account				
ASSETS				
Cash and Cash Equivalents	$ 709,588	$ 7,222,477	$ 7,149,841	$ 782,224
Total Assets	$ 709,588	$ 7,222,477	$ 7,149,841	$ 782,224
LIABILITIES				
Payables:				
Accounts	$	$ 6,030,681	$ 6,030,681	$
Other Intergovernmental	709,588	782,224	709,588	782,224
Funds Held for Others		7,932,065	7,932,065	
Total Liabilities	$ 709,588	$ 14,744,970	$ 14,672,334	$ 782,224

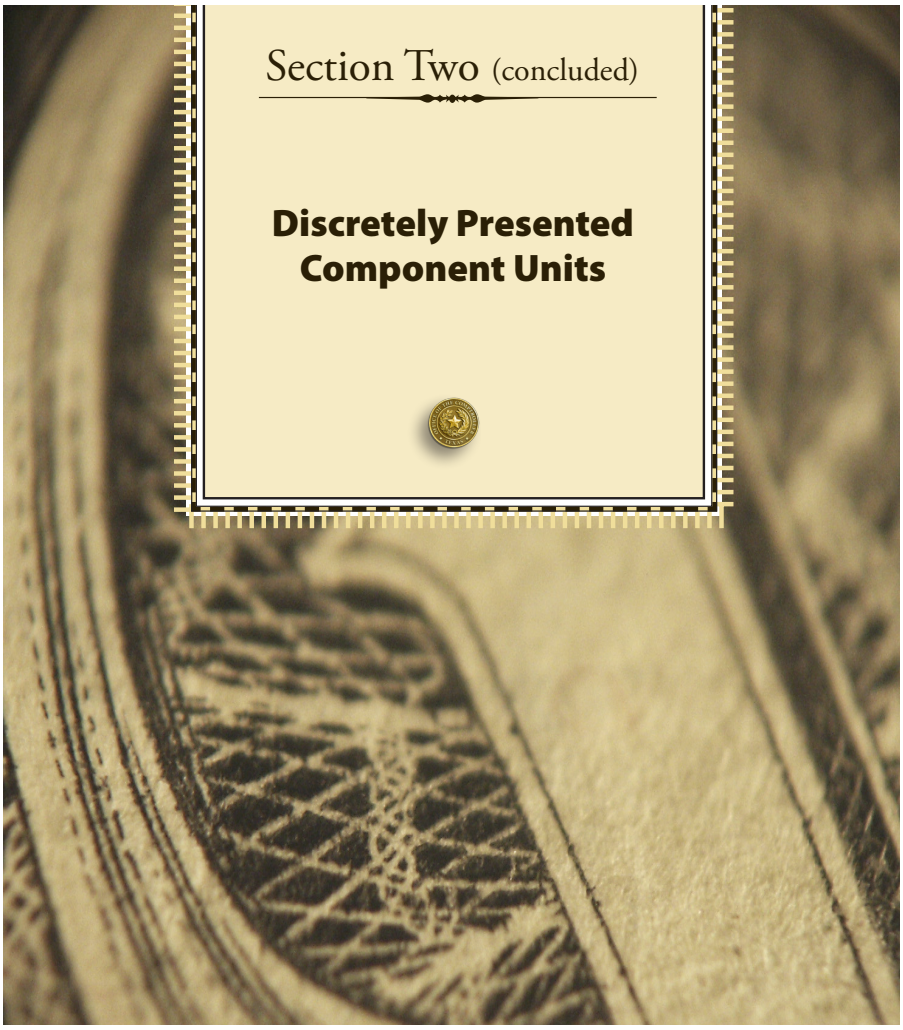
Concluded on the following page

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)

	Beginning Balance September 1, 2007	Additions	Deductions	Ending Balance August 31, 2008
Other Agency Funds				
ASSETS				
Cash and Cash Equivalents	$ 230,886	$ 7,931,122	$ 7,793,844	$ 368,164
Investments	206,547	193,052	165,142	234,457
Receivables:				
Other Intergovernmental	1,492	478	632	1,338
Interest and Dividends	6	1	2	5
Accounts	21,241	150,709	163,425	8,525
Other	15		7	8
Due From Other Funds	255	1,354	277	1,332
Interfund Receivable		3,527	3,527	
Other Assets	92,265	11,809	1,085	102,989
Total Assets	$ 552,707	$ 8,292,052	$ 8,127,941	$ 716,818
LIABILITIES				
Payables:				
Accounts	$ 14,878	$ 1,025,854	$ 1,040,710	$ 22
Other Intergovernmental	6,537	2,959		9,496
Due To Other Funds	479	613	678	414
Interfund Payable		3,495	3,495	
Funds Held for Others	530,813	8,097,354	7,921,281	706,886
Total Liabilities	$ 552,707	$ 9,130,275	$ 8,966,164	$ 716,818
Totals – All Agency Funds				
ASSETS				
Cash and Cash Equivalents	$ 956,477	$ 15,186,981	$ 14,988,728	$ 1,154,730
Investments	442,379	281,531	165,196	558,714
Receivables:				
Other Intergovernmental	1,492	478	632	1,338
Interest and Dividends	1,269	1	111	1,159
Accounts	21,241	150,709	163,425	8,525
Other	15		7	8
Due From Other Funds	255	1,354	277	1,332
Interfund Receivable		3,527	3,527	
Other Assets	1,663,436	273,446	61,418	1,875,464
Total Assets	$ 3,086,564	$ 15,898,027	$ 15,383,321	$ 3,601,270
LIABILITIES				
Payables:				
Accounts	$ 14,878	$ 7,069,103	$ 7,083,959	$ 22
Other Intergovernmental	716,125	785,183	709,588	791,720
Due To Other Funds	479	613	678	414
Interfund Payable		3,495	3,495	
Funds Held for Others	2,355,082	16,396,866	15,942,834	2,809,114
Total Liabilities	$ 3,086,564	$ 24,255,260	$ 23,740,554	$ 3,601,270



Section Two (concluded)

Discretely Presented Component Units

Discretely Presented Component Units

There are 17 entities that are considered discretely presented component units of the state. Details regarding each component unit are included in Note 19. A statement of net assets and a statement of activities have been prepared to report the breakdown of the following discretely presented component units.

Teacher Retirement System
State Bar of Texas
Texas Agricultural Finance Authority
Texas On-Site Wastewater Treatment Research Council
Texas Appraiser Licensing and Certification Board
Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.
Texas Guaranteed Student Loan Corporation
Texas Boll Weevil Eradication Foundation, Inc.
Texas Water Resources Finance Authority
Texas Small Business Industrial Development Corporation
Texas Economic Development Corporation
Texas Disaster Relief Fund
Surplus Lines Stamping Office of Texas
Texas Health Reinsurance System
Texas Health Insurance Risk Pool
Texas State Affordable Housing Corporation

STATE OF TEXAS

Combining Statement of Net Assets – Component Units

August 31, 2008 (Amounts in Thousands)*

	Teacher Retirement System	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 544,540	$ 9,628	$ 21,009	$	$	$ 3
Short-Term Investments		24,514				
Restricted:						
Cash and Cash Equivalents						
Short-Term Investments						
Loans and Contracts						
Receivables:						
Federal						
Other Intergovernmental						
Accounts	49,963	1,075				
Interest and Dividends	1,265		183			
Other						
Due From Primary Government				183	243	
Inventories		727			3	
Prepaid Items		741	33			
Loans and Contracts			6,472			
Other Current Assets			6			
Total Current Assets	595,768	36,685	27,703	183	246	3
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments						
Loans and Contracts						
Loans and Contracts						
Investments						
Other Receivables						
Capital Assets:						
Nondepreciable		2,710				
Depreciable		15,365			9	
Accumulated Depreciation		(11,220)			(9)	
Other Noncurrent Assets						
Total Noncurrent Assets	0	6,855	0	0	0	0
Total Assets	595,768	43,540	27,703	183	246	3

Continued on the following page

Combining Statement of Net Assets – Component Units (continued)

August 31, 2008 (Amounts in Thousands)*

	Teacher Retirement System	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	$ 118,760	$ 3,577	$ 91	$	$ 9	$
Payroll				1	59	
Federal						
Interest						
Due To Primary Government		392		18		
Unearned Revenue		7,553				
Capital Lease Obligations		93				
Employees' Compensable Leave	118	430	3		24	
Notes and Loans Payable		93	24,996			
Revenue Bonds Payable						
Funds Held for Others						
Other Current Liabilities						
Total Current Liabilities	118,878	12,138	25,090	19	92	0
Noncurrent Liabilities:						
Capital Lease Obligations		72				
Employees' Compensable Leave		739	4		5	
Notes and Loans Payable						
Liabilities Payable From Restricted Assets						
Revenue Bonds Payable						
Other Noncurrent Liabilities						
Total Noncurrent Liabilities	0	811	4	0	5	0
Total Liabilities	118,878	12,949	25,094	19	97	0
NET ASSETS						
Invested in Capital Assets, Net of Related Debt		172				
Restricted for:						
Education						
Unrestricted	476,890	30,419	2,609	164	149	3
Total Net Assets	$ 476,890	$ 30,591	$ 2,609	$ 164	$ 149	$ 3

Continued on the following page

* Amounts reported as of Aug. 31, 2008, unless otherwise indicated in Note 19.

Combining Statement of Net Assets – Component Units (continued)

August 31, 2008 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	Texas Disaster Relief Fund
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 23,293	$ 1,012	$ 2,381	$ 51,028	$ 1	$ 712
Short-Term Investments	650,966	70,847	18,724		1,961	
Restricted:						
Cash and Cash Equivalents						
Short-Term Investments						
Loans and Contracts						
Receivables:						
Federal	55,157	2,815				
Other Intergovernmental		3,290				
Accounts		4,686				
Interest and Dividends	6,097		361	202		1
Other		121				
Due From Primary Government						
Inventories		121				
Prepaid Items		334		4		
Loans and Contracts			3,304			
Other Current Assets	1,513					
Total Current Assets	737,026	83,226	24,770	51,234	1,962	713
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments						
Loans and Contracts						
Loans and Contracts			24,262	49,411		622
Investments			12,768			
Other Receivables		4,214				
Capital Assets:						
Nondepreciable	3,315					
Depreciable	54,096	24,829				
Accumulated Depreciation	(16,623)	(18,706)				
Other Noncurrent Assets	94					
Total Noncurrent Assets	40,882	10,337	37,030	49,411	0	622
Total Assets	777,908	93,563	61,800	100,645	1,962	1,335

Continued on the following page

Combining Statement of Net Assets – Component Units (continued)

August 31, 2008 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	Texas Disaster Relief Fund
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	$ 9,595	$ 34	$	$ 73	$ 56	$
Payroll		166				
Federal	24,449					
Interest			31	125		
Due To Primary Government			3			
Unearned Revenue						
Capital Lease Obligations						
Employees' Compensable Leave	1,677	1,177				
Notes and Loans Payable	1,702	11,536				
Revenue Bonds Payable			5,545			
Funds Held for Others				25		
Other Current Liabilities		1,558				
Total Current Liabilities	37,423	14,471	5,579	223	56	0
Noncurrent Liabilities:						
Capital Lease Obligations						
Employees' Compensable Leave	822					
Notes and Loans Payable	6,291	94,985				
Liabilities Payable From Restricted Assets	87,301					
Revenue Bonds Payable			5,195	99,335		
Other Noncurrent Liabilities	250,410					
Total Noncurrent Liabilities	344,824	94,985	5,195	99,335	0	0
Total Liabilities	382,247	109,456	10,774	99,558	56	0
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	32,795	942				
Restricted for:						
Education	4,651					
Unrestricted	358,215	(16,835)	51,026	1,087	1,906	1,335
Total Net Assets	$ 395,661	$ (15,893)	$ 51,026	$ 1,087	$ 1,906	$ 1,335

Continued on the following page

* Amounts reported as of Aug. 31, 2008, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Assets – Component Units (continued)

August 31, 2008 (Amounts in Thousands)*

	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 10,670	$ 2,986	$ 1,975	$ 4,514	$ 673,752
Short-Term Investments			87,515	1,652	856,179
Restricted:					
Cash and Cash Equivalents				2,742	2,742
Short-Term Investments				19,210	19,210
Loans and Contracts				111	111
Receivables:					
Federal					57,972
Other Intergovernmental					3,290
Accounts	369		1,361	411	57,865
Interest and Dividends				648	8,757
Other	35	5			161
Due From Primary Government					426
Inventories					851
Prepaid Items				50	1,162
Loans and Contracts					9,776
Other Current Assets					1,519
Total Current Assets	11,074	2,991	90,851	29,338	1,693,773
Noncurrent Assets:					
Restricted:					
Cash and Cash Equivalents				191	191
Investments				271,063	271,063
Loans and Contracts				4,200	4,200
Loans and Contracts					74,295
Investments					12,768
Other Receivables					4,214
Capital Assets:					
Nondepreciable					6,025
Depreciable	3,257		39	252	97,847
Accumulated Depreciation	(2,875)		(30)	(217)	(49,680)
Other Noncurrent Assets	18		5	5,888	6,005
Total Noncurrent Assets	400	0	14	281,377	426,928
Total Assets	11,474	2,991	90,865	310,715	2,120,701

Concluded on the following page

STATE OF TEXAS

Combining Statement of Net Assets – Component Units (concluded)

August 31, 2008 (Amounts in Thousands)*

	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
LIABILITIES					
Current Liabilities:					
Payables:					
Accounts	$ 153	$ 64	$ 4,363	$ 144	$ 136,919
Payroll					226
Federal					24,449
Interest				1,705	1,861
Due To Primary Government					413
Unearned Revenue			51,741		59,294
Capital Lease Obligations					93
Employees' Compensable Leave					3,429
Notes and Loans Payable				17	38,344
Revenue Bonds Payable				11,313	16,858
Funds Held for Others					25
Other Current Liabilities	173	2,927	11,511	788	16,957
Total Current Liabilities	326	2,991	67,615	13,967	298,868
Noncurrent Liabilities:					
Capital Lease Obligations					72
Employees' Compensable Leave					1,570
Notes and Loans Payable				2,038	103,314
Liabilities Payable From Restricted Assets					87,301
Revenue Bonds Payable				291,646	396,176
Other Noncurrent Liabilities			23,250	723	274,383
Total Noncurrent Liabilities	0	0	23,250	294,407	862,816
Total Liabilities	326	2,991	90,865	308,374	1,161,684
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	382			34	34,325
Restricted for:					
Education					4,651
Unrestricted	10,766			2,307	920,041
Total Net Assets	$ 11,148	$ 0	$ 0	$ 2,341	$ 959,017

* Amounts reported as of Aug. 31, 2008, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Activities – Component Units

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)*

	Teacher Retirement System	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board
EXPENSES					
Salaries and Wages	$ 1,006	$ 14,244	$ 90	$ 6	$ 426
Payroll Related Costs	289	3,701	41		150
Professional Fees and Services	628	2,456	105	102	2
Travel	5	2,506	3	13	9
Materials and Supplies	7	2,008	2	4	38
Communications and Utilities	1	565			7
Repairs and Maintenance		696		1	18
Rentals and Leases	80	1,278			41
Printing and Reproduction	2	2,417		7	2
Claims and Judgments		429			
Bad Debt Expense			50		
Cost of Goods Sold		432			
Depreciation and Amortization		824			
Other Financing Fees			32		
Public Assistance Payments				229	
Employee/Participant Benefit Payments	1,074,945				
Direct Interest Expense			918		
Interest Expense - Other		15			
Other Expenses	13,124	9,265	186	46	36
Total Expenses	1,090,087	40,836	1,427	408	729
PROGRAM REVENUES					
Charges for Services	1,096,934	35,809	2,701		23
Operating Grants and Contributions	62	1,682			
Total Program Revenues	1,096,996	37,491	2,701	0	23
Net Program Revenues (Expenses)	6,909	(3,345)	1,274	(408)	(706)
GENERAL REVENUES					
Unrestricted Investment Earnings (Loss)	21,184		1,224		
Other Revenues	13,120	5,437	1	324	836
Gain on Sale of Capital Assets					
Total General Revenues	34,304	5,437	1,225	324	836
Change in Net Assets	41,213	2,092	2,499	(84)	130
Net Assets, September 1, 2007		28,499	110	248	19
Restatements	435,677				
Net Assets, September 1, 2007, as Restated	435,677	28,499	110	248	19
Net Assets, August 31, 2008	$ 476,890	$ 30,591	$ 2,609	$ 164	$ 149

* Amounts for the fiscal year ended Aug. 31, 2008, unless otherwise indicated in Note 19.

Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.	Texas Guaranteed Student Loan Corporation	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	Texas Disaster Relief Fund
$	$ 44,397	$ 21,665	$ 65	$	$ 23	$
	11,673		9		2	
	13,050	680	1	9	540	3
	2,102	265			337	
	1,662	11,873	3		306	
	1,767	830				
	2,175	1,125				
	620	976			73	
	714				103	
	2,901	2,445				
	53,834	6				
	7,892		4,941			
			1,025			
	423	4,781		2,571		
	144,121	16,654	12	453	438	
0	287,331	61,300	6,056	3,033	1,822	3
	1,930	40,925			140	
	220,557	34,880	4,139	625	1,878	
0	222,487	75,805	4,139	625	2,018	0
0	(64,844)	14,505	(1,917)	(2,408)	196	(3)
	8,640	2,425	(4)	2,493	57	15
					3	
	31	781				
0	8,671	3,206	(4)	2,493	60	15
0	(56,173)	17,711	(1,921)	85	256	12
3	451,713	(33,650)	52,947	1,093	1,650	1,323
	121	46		(91)		
3	451,834	(33,604)	52,947	1,002	1,650	1,323
$ 3	$ 395,661	$ (15,893)	$ 51,026	$ 1,087	$ 1,906	$ 1,335

Concluded on the following page

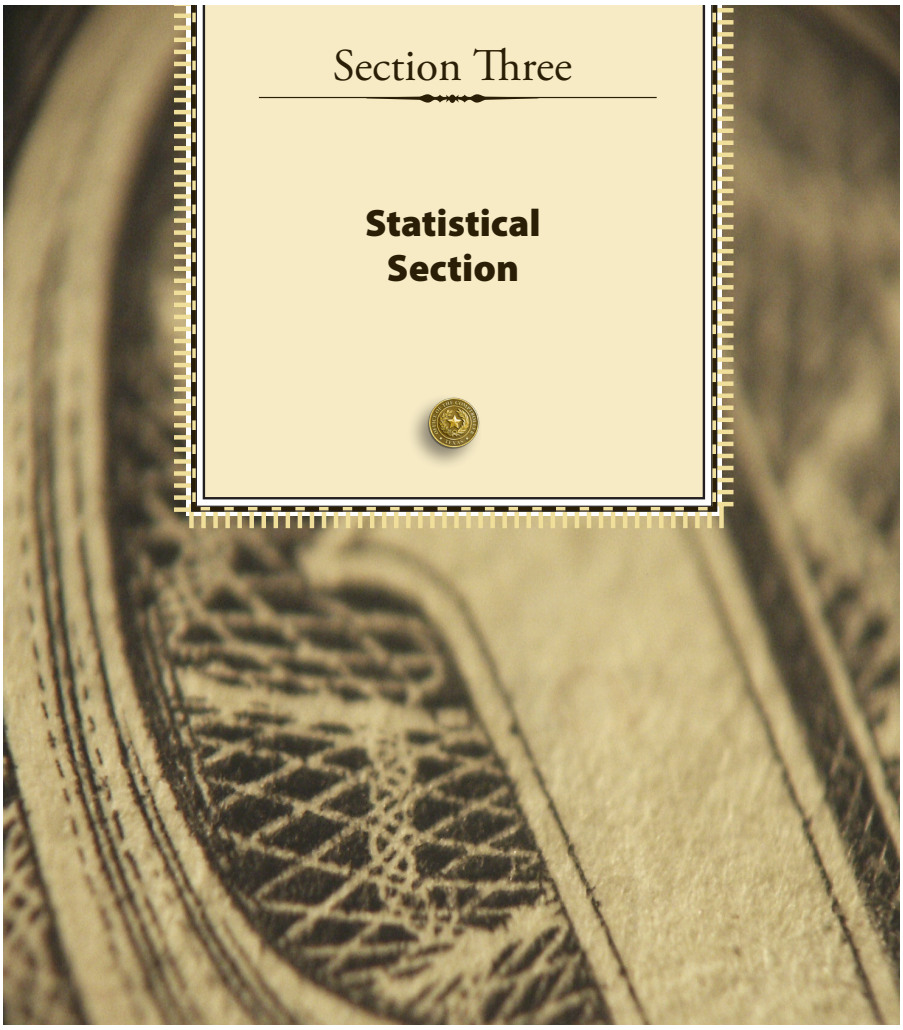
STATE OF TEXAS

Combining Statement of Activities – Component Units (concluded)

For the Fiscal Year Ended August 31, 2008 (Amounts in Thousands)*

	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
EXPENSES					
Salaries and Wages	$ 1,206	$	$ 278	$ 1,104	$ 84,510
Payroll Related Costs	435				16,300
Professional Fees and Services	411		13,185	359	31,531
Travel	8		3	66	5,317
Materials and Supplies	27		30		15,960
Communication and Utilities	31				3,201
Repairs and Maintenance	86				4,101
Rentals and Leases	209		66	142	3,485
Printing and Reproduction	11				3,256
Claims and Judgments					429
Bad Debt Expense					50
Cost of Goods Sold					432
Depreciation and Amortization	261		5	407	6,843
Other Financing Fees					53,872
Public Assistance Payments					13,062
Employee/Participant Benefit Payments					1,074,945
Direct Interest Expense					1,943
Interest Expense - Other				14,407	22,197
Other Expenses	267	366	240,012	6,088	431,068
Total Expenses	2,952	366	253,579	22,573	1,772,502
PROGRAM REVENUES					
Charges for Services	3,299	273	245,228	3,875	1,431,137
Operating Grants and Contributions	397	93	8,351	18,290	290,954
Total Program Revenues	3,696	366	253,579	22,165	1,722,091
Net Program Revenues (Expenses)	744	0	0	(408)	(50,411)
GENERAL REVENUES					
Unrestricted Investment Earnings					36,034
Other Revenues				561	20,282
Gain on Sale of Capital Assets					812
Total General Revenues	0	0	0	561	57,128
Change in Net Assets	744	0	0	153	6,717
Net Assets, September 1, 2007	10,404			2,188	516,547
Restatements					435,753
Net Assets, September 1, 2007, as Restated	10,404	0	0	2,188	952,300
Net Assets, August 31, 2008	$ 11,148	$ 0	$ 0	$ 2,341	$ 959,017

* Amounts for the fiscal year ended Aug. 31, 2008, unless otherwise indicated in Note 19.


Section Three
Statistical
Section

State of Texas
Index for Statistical Section

This section presents detailed information as a context for understanding what the information in the financial statements, note disclosures, required supplementary information and supplementary information says about the state's overall financial health.

Contents **Pages**

Financial Trends Information . . . . . 239 – 243
These schedules contain trend information intended to help the reader understand how the state's financial position has changed over time.

Revenue Capacity Information . . . . . 244 – 246
These schedules contain information intended to help the reader assess the state's most significant revenue source, state tax collections.

Debt Capacity Information . . . . . 247 – 250
These schedules present information intended to assist users in understanding and assessing the state's current levels of outstanding debt and the ability to issue additional debt.

Demographic and Economic Information . . . . . 251 – 252
These schedules provide demographic and economic indicators intended to help the reader understand the socioeconomic environment within which the state's financial activities take place.

Operating Information . . . . . 253 – 255
These schedules provide contextual information about the state's operations and resources intended to assist readers in using financial statement information to understand and assess the state's economic condition.

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Report databases for the relevant years. GASB 34 and 35 were implemented in 2002; schedules presenting government-wide information include information beginning in that year.

STATE OF TEXAS

Statistical Section – Financial Trends

Net Assets by Component

Last Seven Fiscal Years*

(Amounts in Millions)

	2002	2003	2004
GOVERNMENTAL ACTIVITIES			
Invested in Capital Assets, Net of Related Debt	$ 47,322	$ 49,254	$ 51,407
Restricted	20,089	20,846	22,213
Unrestricted	2,065	(28)	541
Total Governmental Activities Net Assets	69,476	70,072	74,161
BUSINESS-TYPE ACTIVITIES			
Invested in Capital Assets, Net of Related Debt	5,142	5,737	6,464
Restricted	14,413	15,168	17,628
Unrestricted	5,841	6,167	5,805
Total Business-Type Activities Net Assets	25,396	27,072	29,897
PRIMARY GOVERNMENT			
Invested in Capital Assets, Net of Related Debt	52,464	54,991	57,871
Restricted	34,502	36,014	39,841
Unrestricted	7,906	6,139	6,346
Total Primary Government Net Assets	$ 94,872	$ 97,144	$ 104,058

	2005	2006	2007	2008
GOVERNMENTAL ACTIVITIES				
Invested in Capital Assets, Net of Related Debt	$ 53,815	$ 55,473	$ 56,438	$ 58,208
Restricted	24,110	25,993	29,347	31,358
Unrestricted	3,753	8,696	12,565	11,105
Total Governmental Activities Net Assets	81,678	90,162	98,350	100,671
BUSINESS-TYPE ACTIVITIES				
Invested in Capital Assets, Net of Related Debt	6,253	6,871	7,343	7,385
Restricted	20,581	22,812	25,815	24,882
Unrestricted	7,076	8,056	9,741	9,885
Total Business-Type Activities Net Assets	33,910	37,739	42,899	42,152
PRIMARY GOVERNMENT				
Invested in Capital Assets, Net of Related Debt	60,068	62,344	63,781	65,593
Restricted	44,691	48,805	55,162	56,240
Unrestricted	10,829	16,752	22,306	20,990
Total Primary Government Net Assets	$ 115,588	$ 127,901	$ 141,249	$ 142,823

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the net assets information is available only from 2002.

Source: state of Texas financial statements 2002-08.

Changes in Net Assets

Last Seven Fiscal Years*

(Amounts in Thousands)

	2002	2003	2004	2005	2006	2007	2008
GOVERNMENTAL ACTIVITIES:							
Expenses							
General Government	$ 1,947,049	$ 2,026,241	$ 2,234,369	$ 2,206,793	$ 2,681,117	$ 2,555,309	$ 2,659,822
Education	15,831,226	15,935,961	16,250,938	16,293,851	18,025,550	21,313,526	24,986,076
Employee Benefits	14,757	22,644	60,536	50,544	56,718	61,171	86,195
Teacher Retirement Benefits	1,201,886	2,435,727	2,269,667	2,083,530	1,932,325	2,017,000	1,761,759
Health and Human Services	22,817,118	24,742,714	25,060,588	27,302,426	28,808,315	30,886,484	32,426,046
Public Safety and Corrections	4,170,817	4,207,856	4,030,120	4,086,450	5,084,923	5,035,761	5,020,897
Transportation	3,576,274	3,562,159	3,476,342	3,766,301	4,452,154	4,252,129	4,478,109
Natural Resources and Recreation	736,111	835,139	864,508	1,070,481	961,178	1,217,201	1,451,450
Regulatory Services	273,023	324,567	375,951	349,420	282,067	314,266	398,885
Indirect Interest on Long-Term Debt	403,784	366,847	338,693	417,854	54,121	229,354	578,059
Total Expenses	50,972,045	54,459,855	54,961,712	57,627,650	62,338,468	67,882,201	73,847,298
Program Revenues							
Charges for Services:							
General Government	1,378,004	1,378,735	1,695,987	802,588	1,199,924	1,141,278	1,171,997
Education	236,776	485,676	520,621	594,702	626,224	584,971	821,291
Employee Benefits	383	112	171	97	120	116	107
Teacher Retirement Benefits				10	93,694	26,661	
Health and Human Services	710,167	821,773	838,377	1,124,402	1,177,825	2,059,789	1,832,315
Public Safety and Corrections	144,120	148,420	164,959	463,097	441,803	823,602	331,101
Transportation	988,612	974,627	1,016,809	1,342,073	1,373,339	1,530,669	1,785,835
Natural Resources and Recreation	453,990	437,834	473,608	716,981	570,872	714,687	661,657
Regulatory Services	63,986	92,875	212,919	534,469	596,705	604,199	635,089
Operating Grants and Contributions	17,563,832	22,801,211	24,501,850	26,667,982	28,979,226	29,995,409	25,900,072
Capital Grants and Contributions	2,191,470	2,570,634	2,773,764	3,253,051	2,803,006	1,823,686	2,585,507
Total Program Revenues	23,731,340	29,711,897	32,199,065	35,499,452	37,862,738	39,305,067	35,724,971
Total Governmental Activities Net Program Expense	(27,240,705)	(24,747,958)	(22,762,647)	(22,128,198)	(24,475,730)	(28,577,134)	(38,122,327)
General Revenues							
Taxes:							
Sales and Use	14,249,422	14,349,758	15,564,085	16,260,689	18,475,176	20,230,164	21,640,855
Motor Vehicle and Manufactured Housing	2,891,742	2,795,211	2,665,258	2,897,031	3,046,856	3,338,498	3,384,597
Motor Fuels	2,687,798	2,790,936	2,931,753	2,915,680	3,053,476	3,149,043	3,000,148
Franchise	1,999,005	1,532,820	1,657,141	2,203,578	2,632,780	3,273,050	4,712,183
Oil and Natural Gas Production	640,615	1,531,275	1,918,989	2,409,276	3,441,638	2,692,032	4,036,033
Insurance Occupation	973,279	1,179,553	1,192,829	1,213,627	1,238,846	1,368,340	1,446,828
Cigarette and Tobacco	536,464	583,159	540,404	596,569	547,000	1,325,712	1,454,187
Other	1,454,357	1,405,325	1,426,026	1,435,701	1,558,073	1,694,750	1,744,400
Unrestricted Investment Earnings	383,608	239,198	211,239	327,516	760,207	941,938	1,041,840
Federal Jobs and Growth Tax Relief Funds		354,535	354,535				
Settlement of Claims	512,579	563,196	523,518	885,975	583,787	538,836	555,476
Gain on Sale of Capital Assets		6,359	31,189	8,461	2,762	3,942	
Other General Revenues	618,981	787,866	723,157	822,652	1,071,679	1,627,330	1,392,565
Capital Contributions		600	944	107	1,449	309	8,653
Transfers	(3,171,399)	(3,069,447)	(2,867,137)	(2,966,197)	(3,513,639)	(3,383,910)	(3,909,529)
Total General Revenues, Contributions and Transfers	23,776,451	25,050,344	26,873,930	29,010,665	32,900,090	36,800,034	40,508,236
Change in Net Assets – Governmental Activities	(3,464,254)	302,386	4,111,283	6,882,467	8,424,360	8,222,900	2,385,909

Concluded on the following page

* The state did not begin reporting government-wide financial statements until it implemented GASB Statements No. 34 and No. 35 in 2002.

Source: state of Texas financial statements 2002-08.

Changes in Net Assets (concluded)

Last Seven Fiscal Years*

(Amounts in Thousands)

	2002	2003	2004	2005	2006	2007	2008
BUSINESS-TYPE ACTIVITIES:							
Expenses							
General Government	$ 246,183	$ 235,098	$ 187,064	$ 142,142	$ 162,499	$ 186,628	$ 177,012
Education	12,584,976	13,340,397	13,538,233	14,716,405	15,982,582	17,165,602	18,619,716
Employee Benefits		517,912	615,692				
Teacher Retirement Benefits				761,240	813,133	909,845	
Health and Human Services	2,712,361	2,964,169	2,203,096	1,540,459	1,253,431	1,204,609	1,467,185
Public Safety and Corrections	69,235	68,419	68,828	71,308	73,775	75,305	80,607
Transportation	13,011	16,937	22,725	346	16,339	125,910	164,280
Natural Resources and Recreation	149,767	157,902	146,815	264,707	284,241	283,653	247,018
Regulatory Services	2,096						
Lottery	2,034,639	2,163,670	2,426,019	2,594,241	2,687,084	2,691,210	2,634,446
Total Expenses	17,812,268	19,464,504	19,208,472	20,090,848	21,273,084	22,642,762	23,390,264
Program Revenues							
Charges for Services:							
General Government	32,475	50,669	44,166	27,947	37,245	42,713	43,106
Education	5,108,647	5,549,390	5,845,956	6,662,679	7,284,371	8,268,639	8,705,756
Employee Benefits		584,709	758,255				
Teacher Retirement Benefits				823,910	861,648	939,879	
Health and Human Services	1,129,885	1,603,241	1,783,807	1,963,403	1,862,804	1,665,242	1,058,134
Public Safety and Corrections	67,809	71,694	75,094	77,521	79,032	82,779	87,365
Transportation			39,162	14	13	16,757	48,958
Natural Resources and Recreation	2,377	3,002	3,911	22,106	33,716	41,034	42,964
Lottery	2,967,271	3,131,532	3,488,941	3,663,414	3,775,491	3,774,948	3,672,423
Operating Grants and Contributions	3,299,297	6,244,537	6,356,243	8,086,139	7,200,099	9,001,427	4,808,580
Capital Grants and Contributions	51,930	162,991	272,997	211,726	155,541	197,731	245,962
Total Program Revenues	12,659,691	17,401,765	18,668,532	21,538,859	21,289,960	24,031,149	18,713,248
Total Business-Type Activities Net Program Revenue (Expense)	(5,152,577)	(2,062,739)	(539,940)	1,448,011	16,876	1,388,387	(4,677,016)
General Revenues							
Unrestricted Investment Earnings	108,831	28,020	193,347	68,423	55,150	245,977	190,974
Settlement of Claims	2,579	5	4	20	94	283	6
Gain on Sale of Capital Assets	750			6,431	276	13,363	269
Other General Revenue	301,020	329,235	194,474	126,957	91,017	266,722	270,787
Capital Contributions	112,088	1,318	2,715	133	3,874	1,364	
Contributions to Permanent and Term Endowment	101,473	235,997	235,182	145,919	123,939	184,193	167,692
Special Items					(38,898)	(318,813)	(150,026)
Extraordinary Items	603,679	36,532	(13,401)				
Transfers	3,171,399	3,069,447	2,867,137	2,966,197	3,513,639	3,383,910	3,909,529
Total General Revenues, Contributions, Special Items, Extraordinary Items and Transfers	4,401,819	3,700,554	3,479,458	3,314,080	3,749,091	3,776,999	4,389,231
Change in Net Assets – Business-Type Activities	(750,758)	1,637,815	2,939,518	4,762,091	3,765,967	5,165,386	(287,785)
Change in Net Assets – Primary Government	$ (4,215,012)	$ 1,940,201	$ 7,050,801	$ 11,644,558	$ 12,190,327	$ 13,388,286	$ 2,098,124

STATE OF TEXAS

Statistical Section – Financial Trends

Fund Balances – Governmental Funds

Last Seven Fiscal Years*

(Amounts in Millions)

	2002	2003	2004	2005	2006	2007	2008
GENERAL FUND							
Reserved	$ 1,430	$ 1,042	$ 1,185	$ 1,752	$ 1,648	$ 2,138	$ 2,471
Unreserved	(369)	(2,326)	(1,562)	286	5,673	8,698	8,184
Total General Fund	$ 1,061	$ (1,284)	$ (377)	$ 2,038	$ 7,321	$ 10,836	$ 10,655
ALL OTHER GOVERNMENTAL FUNDS							
Reserved	$ 19,187	$ 20,485	$ 21,850	$ 24,275	$ 25,999	$ 29,054	$ 27,957
Unreserved							
Special Revenue	1,669	1,256	1,309	1,460	910	1,847	4,953
Capital Projects	13	14	15		7	(11)	(124)
Permanent	429	458	492	546	575	632	564
Total All Other Governmental Funds	$ 21,298	$ 22,213	$ 23,666	$ 26,281	$ 27,491	$ 31,522	$ 33,350

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, information for fund balances is available only for the line-items presented beginning in 2002.

Source: state of Texas financial statements 2002-08.

Statistical Section – Financial Trends

Changes in Fund Balances – Governmental Funds

Last Ten Fiscal Years*

(Amounts in Millions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
REVENUES BY SOURCE										
Tax Collections	$23,499	$25,226	$27,045	$25,123	$25,939	$27,976	$29,830	$33,867	$36,670	$41,256
Federal Funds	15,316	16,170	17,319	20,307	23,017	24,382	25,851	28,212	26,967	28,656
Licenses, Fees and Permits	2,826	2,915	2,960	2,815	2,921	3,332	3,590	4,011	4,324	4,522
Interest and Other Investment Income	1,328	1,578	1,705	(815)	2,118	2,435	3,317	3,218	4,574	(368)
Land Income	10	11	46	179	298	482	544	462	422	650
Settlement of Claims	1,118	324	403	513	563	523	883	583	539	555
Sales of Goods and Services	664	578	689	962	1,131	1,109	1,445	1,503	2,697	2,063
Other Revenues	1,374	1,227	1,451	1,273	1,464	1,754	1,918	2,159	2,730	2,590
Total Revenues	46,135	48,029	51,618	50,357	57,451	61,993	67,378	74,015	78,923	79,924
EXPENDITURES BY FUNCTION										
General Government	1,673	1,798	1,902	1,846	1,961	2,191	2,151	2,530	2,415	2,628
Education	12,640	14,743	15,057	15,739	15,927	16,220	16,204	18,025	21,317	24,976
Employee Benefits	7	8	8	15	12	12	12	13	14	14
Teacher Retirement Benefits										1,781
Health and Human Services	17,082	17,878	19,036	22,394	24,690	25,039	27,192	28,761	30,855	32,355
Public Safety and Corrections	3,332	3,554	3,812	4,037	4,067	3,887	3,952	4,939	4,897	4,864
Transportation	3,922	4,612	4,720	3,096	3,065	2,970	3,246	3,909	3,702	3,895
Natural Resources and Recreation	712	672	704	713	787	844	1,039	930	1,172	1,420
Regulatory Services	235	243	260	270	311	371	345	294	317	393
Debt Service:										
Principal	344	372	346	287	367	211	306	393	437	415
Interest	531	599	761	339	360	335	375	238	370	428
Other Financing Fees								2	14	15
Capital Outlay	548	517	389	2,274	2,654	2,830	3,735	3,938	4,368	4,404
Total Expenditures	41,026	44,996	46,995	51,010	54,201	54,910	58,557	63,972	69,878	77,588
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,109	3,033	4,623	(653)	3,250	7,083	8,821	10,043	9,045	2,336
OTHER FINANCING SOURCES (USES)										
Transfer In	5,140	4,838	4,988	6,093	5,793	6,984	7,488	7,343	7,765	13,832
Transfer Out	(9,975)	(8,802)	(9,070)	(10,870)	(10,937)	(11,842)	(12,248)	(12,433)	(12,887)	(17,777)
Bonds and Notes Issued	534	919	464	232	383	87	1,242	1,440	3,471	2,988
Bonds Issued for Advance Refunding	241			8	164	58	208	72	249	515
Payment to Escrow for Advance Refunding	(241)			(8)	(164)	(69)	(208)	(72)	(263)	(559)
Premiums on Bonds Issued **									126	180
Sale of Capital Assets	20	16	19	80	21	50	37	17	29	22
Increases in Obligations Under Capital Leases	24	4	1		4			3		1
Insurance Recoveries								7	2	15
Total Other Financing Sources (Uses)	(4,257)	(3,025)	(3,598)	(4,465)	(4,736)	(4,732)	(3,481)	(3,623)	(1,508)	(783)
NET CHANGE IN FUND BALANCES	$ 852	$ 8	$ 1,025	$ (5,118)	$ (1,486)	$ 2,351	$ 5,340	$ 6,420	$ 7,537	$ 1,553
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	2.2%	2.2%	2.4%	1.3%	1.4%	1.0%	1.2%	1.1%	1.3%	1.2%

* This table is comprised of the following funds: general, special revenue, debt service, capital projects and permanent.

** Premiums on bonds issued were combined with bonds and notes issued in years prior to 2008.

Source: state of Texas financial statements 1999-2008.

Taxable Sales by Industry

For the Fiscal Years 1998 through 2007* (Amounts in Millions)

NAICS** Industry	2002	2003	2004	2005	2006	2007
Agriculture, Forestry, Fishing, Hunting	$ 127	$ 108	$ 105	$ 137	$ 149	$ 147
Mining, Quarrying, Oil & Gas Extraction	2,862	3,342	3,897	5,329	8,143	11,351
Utilities	4,801	5,282	5,485	7,543	9,022	9,305
Construction	6,857	7,003	8,071	9,271	11,583	13,144
Manufacturing	17,653	16,319	17,543	20,733	24,336	27,021
Wholesale Trade	14,919	17,324	19,000	21,634	25,044	26,663
Retail Trade	99,690	102,215	108,078	116,307	127,389	135,050
Transportation, Warehousing	830	1,208	1,390	1,317	1,805	1,832
Information	23,884	23,900	24,804	26,579	29,538	30,933
Finance, Insurance	1,955	1,894	1,819	1,913	2,099	2,183
Real Estate, Rental, Leasing	5,766	5,569	5,820	6,832	8,102	9,062
Professional, Scientific, Technical Serv.	5,147	4,812	5,181	6,282	7,069	7,657
Management of Companies, Enterprises	1,649	1,930	1,972	2,008	802	525
Admin Supt Waste Mgmt Remediation Serv.	6,827	7,050	7,554	7,995	8,692	9,434
Educational Services	281	294	341	379	406	428
Health Care, Social Assistance	422	513	547	600	623	743
Arts, Entertainment, Recreation	2,316	2,710	2,885	2,875	3,019	3,215
Accomodation, Food Services	22,931	23,653	25,438	27,313	29,750	31,962
Other Services (except Public Admin)	5,892	6,083	6,295	6,824	7,452	7,889
Public Administration	1,881	1,692	2,072	1,565	1,474	1,468
Nonclassifiable	5	9	8	8	6	4
Other	3,263	1,655	648	221	98	57
Total Taxable Sales	$229,958	$234,565	$248,953	$273,665	$306,601	$330,073
Direct Sales Tax Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

SIC*** Industry	1998	1999	2000	2001
Agriculture, Forestry, Fishing	$ 1,020	$ 1,182	$ 1,294	$ 1,367
Mining, Natural Resources	1,754	1,475	2,030	2,815
Construction	6,184	6,506	7,370	7,422
Manufacturing	16,413	15,975	17,356	16,141
Transportation, Communications, Utilities	23,284	25,083	27,652	28,415
Wholesale Trade	18,017	18,585	19,609	19,172
Retail Trade	108,661	116,118	122,849	127,145
Finance, Insurance, Real Estate	849	925	1,062	1,226
Services	25,184	27,263	29,773	29,742
Public Administration	450	455	500	513
Nonclassifiable Establishments	60	59	48	35
Other	603	476	497	838
Total Taxable Sales	$202,479	$214,102	$230,040	$234,831
Direct Sales Tax Rate	6.25%	6.25%	6.25%	6.25%

* Fiscal 2008 data is not available until mid-year of the the following fiscal year.

** North American Industry Classification System -available only from 2002-07.

*** Standard Industrial Classification System

Note: The amount of sales tax revenue should not be calculated from the table as there are numerous adjustments, allocations and refunds to arrive at actual taxable revenue.

Source: Texas Comptroller of Public Accounts, "Quarterly Sales Tax Reports."

State Tax Collections and Retail Sales

Last Ten Years

(Amounts in Millions, Except Per Capita State Tax Collections and Percentage Data)

State Tax Collections Per Capita, 1999-2008*

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Tax Collections	$ 23,499	$ 25,226	$ 27,045	$ 25,123	$ 25,939	$ 27,976	$ 29,830	$ 33,867	$ 36,670	$ 41,256
Percentage Tax Collection Change From Prior Year	4.0%	7.3%	7.2%	(7.1)%	3.2%	7.9%	6.6%	13.5%	8.3%	12.5%
Resident Population	20.6	21.0	21.4	21.8	22.1	22.5	22.8	23.4	23.9	24.3
Percentage Population Change From Prior Year	2.0%	1.9%	1.9%	1.9%	1.4%	1.8%	1.8%	2.6%	1.7%	1.7%
State Tax Collections Per Capita	$ 1,143	$ 1,204	$ 1,266	$ 1,155	$ 1,172	$ 1,242	$ 1,308	$ 1,447	$ 1,534	$ 1,698

* This table is comprised of the following funds: general, special revenue, debt service and capital projects.

Source: Tax collections figures taken from the 1999-2008 state of Texas financial statements.
Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and have been revised from prior years due to changes in methodology, inflation factors, price indicators and revisions to interim census figures.

Total Retail Sales 1999–2008

(Amounts in Millions)

Year	Retail Sales	Percent Change
1999	$265,073	8.2%
2000	$298,614	12.7%
2001	$307,070	2.8%
2002*	$289,652	(3.6)%
2003	$305,441	5.5%
2004	$331,077	8.4%
2005	$361,242	9.1%
2006	$375,564	4.0%
2007	$401,883	7.0%
2008**	$ 96,048	7.6%

* Retail sales are classified on the basis of the North American Industrial Classification System (NAICS) for 2002-08, as opposed to Standard Industrial Codes (SICs) before that. The percentage change in 2002 is based on SIC data for both 2001-02.

** First quarter of 2008 and the percentage change over the first quarter of 2007.

Source: Texas Comptroller of Public Accounts. Some revisions were made from 2002 onward, based on changes in retailer classifications in the Comptroller's database.

Due to confidentiality issues, the names of the ten largest revenue payers are not available. This table provides alternative information regarding the source of the state's major tax revenue.

Texas Gross State Product by Industry

Last Ten Years

(Amounts in Millions of Dollars)

NAICS* Industry	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Agriculture, Forestry and Fishing	$ 6,752	$ 6,470	$ 6,394	$ 7,457	$ 8,094	$ 9,878	$ 8,707	$ 7,807	$ 9,651	$ 10,596
% Change	11.6	(4.2)	(1.2)	16.6	8.5	21.0	(11.9)	(10.3)	23.6	9.8
Mining and Natural Resources	27,652	45,182	44,072	39,219	57,913	68,248	91,549	104,167	110,336	121,108
% Change	19.0	63.4	(2.5)	(11.0)	47.7	19.1	34.1	13.8	5.9	9.8
Construction	32,836	36,882	40,259	41,871	43,474	45,648	50,577	55,324	52,203	52,283
% Change	11.1	12.3	9.2	4.0	3.8	3.7	10.8	9.4	(5.6)	0.2
Manufacturing	91,601	92,981	92,273	94,462	93,158	119,028	126,490	142,846	153,180	160,783
% Change	(6.5)	1.5	(0.8)	2.4	(1.4)	27.6	6.3	12.9	7.2	5.0
Trade, Transportation and Utilities	146,595	155,785	160,789	164,723	170,756	181,596	191,652	206,664	222,262	235,138
% Change	8.2	6.3	3.2	2.4	3.7	5.3	5.5	7.8	7.5	5.8
Information	33,295	35,865	36,992	36,531	36,040	38,545	41,122	43,829	48,069	51,109
% Change	8.8	7.7	3.1	(1.2)	(1.3)	7.7	6.7	6.6	9.7	6.3
Financial Activities	107,929	117,200	125,928	128,219	133,437	137,454	145,274	157,743	167,219	177,303
% Change	8.7	8.6	7.4	1.8	4.1	4.7	5.7	8.6	6.0	6.0
Professional and Business Services	69,387	73,208	82,195	83,937	88,718	93,307	104,248	114,443	128,415	140,082
% Change	10.3	5.5	12.3	2.1	5.7	7.7	11.7	9.8	12.2	9.1
Educational and Health Services	39,357	42,359	46,797	51,380	54,760	59,440	61,674	65,744	70,939	75,821
% Change	5.8	7.6	10.5	9.8	6.6	7.8	3.8	6.6	7.9	6.9
Leisure and Hospitality Services	21,764	23,106	23,993	25,492	26,479	27,877	29,551	32,109	34,011	36,167
% Change	9.0	6.2	3.8	6.2	3.9	4.6	6.0	8.7	5.9	6.3
Other Private Services	16,576	17,603	18,106	18,679	19,644	19,889	21,143	22,458	23,805	25,150
% Change	4.1	6.2	2.9	3.2	5.2	1.4	6.3	6.2	6.0	5.7
Government, including Schools	75,249	80,590	84,448	91,512	96,325	100,759	107,343	114,970	121,866	128,635
% Change	5.9	7.1	4.8	8.4	5.3	5.0	5.9	5.5	4.4	4.4
TOTAL	$668,993	$727,231	$762,246	$783,482	$828,798	$901,669	$979,330	$1,068,104	$1,141,956	$1,215,175
% Change	6.3	8.7	4.8	2.8	5.8	9.1	9.4	9.1	6.9	6.4
TOTAL (In 2000 Chained Dollars)	$699,101	$727,229	$745,325	$760,588	$770,975	$806,055	$825,217	$ 867,791	$ 903,383	$ 940,334
% Change	4.9	4.0	2.5	2.0	1.4	4.8	2.4	5.2	4.1	4.1

* North American Industry Classification System.

BEA periodically revises its personal income and gross product data for periods up to five years.

Source: U. S. Bureau of Economic Analysis (BEA). BEA numbers for gross product and real gross product are subject to revision.

Statistical Section – Debt Capacity

Legal Debt Margin Information

Last Ten Fiscal Years

(Amounts in Thousands, Except Percentage Data)

	1999	2000	2001	2002	2003
Debt Service Limit*	$1,162,163	$1,213,667	$1,265,625	$1,308,045	$ 1,318,449
Total Net Debt Service Applicable to Limit	511,259	492,915	484,448	580,012	626,185
Legal Debt Service Margin	$ 650,904	$ 720,752	$ 781,177	$ 728,033	$ 692,264
Total Net Debt Service Applicable to Limit as a Percentage of Debt Service Limit	44.0%	40.6%	38.3%	44.3%	47.5%

	2004	2005	2006	2007	2008
Debt Service Limit*	$1,344,627	$1,405,937	$1,518,628	$1,664,884	$ 1,773,089
Total Net Debt Service Applicable to Limit	622,433	620,989	545,725	605,518	1,450,498
Legal Debt Service Margin	$ 722,194	$ 784,948	$ 972,903	$1,059,366	$ 322,591
Total Net Debt Service Applicable to the Limit as a Percentage of Debt Service Limit	46.3%	44.2%	35.9%	36.4%	81.8%

Legal Debt Service Margin Calculation for Fiscal 2008

Unrestricted General Revenue fiscal 2006	$33,389,324
Unrestricted General Revenue fiscal 2007	36,129,759
Unrestricted General Revenue fiscal 2008	36,866,229
Debt Service Limit*	1,773,089
Debt Service Applicable to Limit:	
Debt Service on Outstanding Debt Payable from GR	459,972
Plus: Estimated Debt Service on Authorized but Unissued Debt Payable From GR	990,526
Total Net Debt Service Applicable to Limit	1,450,498
Legal Debt Service Margin	$ 322,591

* Debt service limit – Under state law, the maximum annual debt service in any fiscal year on state debt payable from the general revenue fund may not exceed 5 percent of an amount equal to the average of the unrestricted general revenue fund revenues for the three preceding fiscal years.

Source: Texas Bond Review Board.

STATE OF TEXAS

Statistical Section – Debt Capacity

Ratio of Outstanding Debt by Type

Last Seven Fiscal Years*

(Amounts in Millions, Except Percentage Data and Per Capita)

	Governmental Activities			Business-Type Activities					
Fiscal Year	General Obligation Bonds	Revenue Bonds	Notes and Loans	General Obligation Bonds	Revenue Bonds	Notes and Loans	Total Primary Government	Percentage of Personal Income	Per Capita
2002	$3,081	$ 809	$98	$2,671	$8,264	$1,607	$16,530	2.6%	760
2003	3,185	739	103	2,599	9,277	1,889	17,792	2.7%	804
2004	3,116	679	116	2,719	10,844	1,920	19,394	2.8%	861
2005	3,972	632	262	2,815	11,749	1,614	21,044	2.8%	918
2006	4,479	1,152	331	2,739	12,378	1,741	22,820	2.8%	971
2007	6,757	2,031	216	2,775	12,304	2,029	26,112	2.9%	1,094
2008	8,061	3,445	340	2,708	13,370	2,437	30,361	3.2%	1,247

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the outstanding debt information is available only beginning in 2002.

Source: 2002-08 state of Texas financial statements.

STATE OF TEXAS

Statistical Section – Debt Capacity

Ratios of General Bonded Debt Outstanding

Last Ten Fiscal Years*

(Amounts in Millions, Except Percentage Data and General Bonded Debt Per Capita)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Bonded Debt (General Obligation Bonds Only)	$4,920	$5,143	$5,271	$5,756	$5,784	$5,835	$6,787	$7,218	$9,532	$10,768
Percentage Bonded Debt Change From Prior Year	(1.6)%	4.5%	2.5%	9.2%	0.5%	0.9%	16.3%	6.4%	32.1%	13.0%
Tax Collections	23,499	25,226	27,045	25,123	25,939	27,976	29,830	33,867	36,670	41,256
Percentage Bonded Debt to Tax Collections	20.9%	20.4%	19.5%	22.9%	22.3%	20.9%	22.8%	21.3%	26.0%	26.1%
Resident Population	20.6	21.0	21.4	21.8	22.1	22.5	22.8	23.4	23.9	24.3
General Bonded Debt Per Capita	$ 239	$ 245	$ 247	$ 265	$ 262	$ 259	$ 298	$ 308	$ 399	$ 443

* Historical data may reflect a variety of changes in methodology, inflation factors, price indicators and revisions to interim census figures made by the U.S. Bureau of Economic Analysis.

Source: Bonded debt and tax collections amounts are taken from the 1999-2008 state of Texas financial statements. Tax Collections from 1999-2008 state of Texas financial statements. Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis.

STATE OF TEXAS

Statistical Section – Debt Capacity

Pledged Revenue Bond Coverage

Last Seven Fiscal Years*

(Amounts in Thousands, Except Ratio Data)

	2002	2003	2004	2005	2006	2007	2008
GOVERNMENTAL ACTIVITIES							
Pledged Revenue Bond Amount	$ 93,796	$ 93,942	$ 101,178	$ 150,119	$ 81,011	$ 5,765,826	$ 6,748,490
Operating Expenditures	2,257	11,772	2,525	15,540	1,452	6,881,279	7,447,496
Net Available Revenue	$ 91,539	$ 82,170	$ 98,653	$ 134,579	$ 79,559	$ (1,115,453)	$ (699,006)
Debt Service –							
Principal	$ 70,230	$ 74,106	$ 77,058	$ 84,087	$ 86,056	$ 104,077	$ 112,250
Interest	41,996	37,478	33,314	26,115	25,764	66,822	118,203
Total Debt Service	$ 112,226	$ 111,584	$ 110,372	$ 110,202	$ 111,820	$ 170,899	$ 230,453
Coverage Ratio	0.8	0.7	0.9	1.2	0.7	(6.5)	(3.0)
BUSINESS-TYPE ACTIVITIES							
Pledged Revenue Bond Amount	$7,236,922	$6,401,630	$7,049,189	$8,369,686	$9,088,841	$ 9,869,477	$10,225,735
Operating Expenditures	207,852	536,191	885,294	839,699	364,043	1,457,567	11,698,563
Net Available Revenue	$7,029,070	$5,865,439	$6,163,895	$7,529,987	$8,724,798	$ 8,411,910	$ (1,472,828)
Debt Service –							
Principal	$ 242,174	$ 490,032	$ 440,036	$ 532,128	$ 623,346	$ 683,150	$ 420,487
Interest	355,997	371,983	492,366	503,958	537,104	560,359	558,666
Total Debt Service	$ 598,171	$ 862,015	$ 932,402	$1,036,086	$1,160,450	$ 1,243,509	$ 979,153
Coverage Ratio	11.8	6.8	6.6	7.3	7.5	6.8	(1.5)
COMPONENT UNITS**							
Pledged Revenue Bond Amount	$ 25,863	$ 16,215	$ 11,781	$ 13,524	$ 13,704	$ 13,034	$ 10,971
Operating Expenditures	625		349	225	264	91	552
Net Available Revenue	$ 25,238	$ 16,215	$ 11,432	$ 13,299	$ 13,440	$ 12,943	$ 10,419
Debt Service –							
Principal	$ 13,000	$ 12,130	$ 11,050	$	$ 5,840	$ 5,485	$ 5,090
Interest	6,875	5,463	2,937	3,628	4,940	5,051	3,610
Total Debt Service	$ 19,875	$ 17,593	$ 13,987	$ 3,628	$ 10,780	$ 10,536	$ 8,700
Coverage Ratio	1.3	0.9	0.8	3.7	1.2	1.2	1.2
Total Combined Coverage Ratio	9.8	6.0	5.9	6.7	6.9	5.1	(1.8)

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the pledged revenue bond information is available only beginning in 2002.

** Component Units have been revised from 2003 to 2007 to reflect revised reporting of debt coverage in 2008.

Note: This bond data includes operating revenues, interest earned on investments, other pledged revenues and other sources. Operating expenditures include capital outlay expenditures.

Source: 2002-08 state of Texas annual financial statements and bond reporting system.

Top 10 Private Employers in Texas*

Last Eight Years**

2000	2001	2002
Administaff Companies, Inc.	Administaff Companies, Inc.	Administaff Companies II LP
Albertsons, Inc.	Albertsons, Inc.	American Airlines, Inc.
American Airlines, Inc.	American Airlines, Inc.	Continental Airlines, Inc.
Continental Airlines, Inc.	HEB Grocery Company LP	HEB Grocery Company LP
HEB Grocery Company LP	Kroger Texas LP	Home Depot USA, Inc.
Kroger Texas LP	Sears Roebuck & Company	Kroger Texas LP
Sears Roebuck & Company	Southwestern Bell	Southwestern Bell Telephone LP
Southwestern Bell	Target Stores Division	Target Stores Division
United Parcel Service, Inc.	United Parcel Service, Inc.	United Parcel Service, Inc.
Wal-Mart Associates, Inc.	Wal-Mart Associates, Inc.	Wal-Mart Associates, Inc.

2003	2004	2005
Administaff Companies II LP	Administaff Companies II LP	Administaff Companies II LP
American Airlines, Inc.	American Airlines, Inc.	American Airlines, Inc.
HEB Grocery Company LP	Continental Airlines, Inc.	Continental Airlines, Inc.
Home Depot USA, Inc.	HEB Grocery Company LP	HEB Grocery Company LP
Kroger Texas LP	Home Depot USA, Inc.	Home Depot USA, Inc.
Lockheed Martin Corp	Kroger Texas LP	Kroger Texas LP
Southwestern Bell Telephone LP	Southwestern Bell Telephone LP	Southwestern Bell Telephone LP
Target Stores Division	Target Stores Division	Target Stores Division
United Parcel Service, Inc.	United Parcel Service, Inc.	United Parcel Service, Inc.
Wal-Mart Associates, Inc.	Wal-Mart Associates, Inc.	Wal-Mart Associates, Inc.

2006	2007
Administaff Companies II LP	Administaff Companies II LP
American Airlines, Inc.	American Airlines, Inc.
Continental Airlines, Inc.	Brinker International
HEB Grocery Company LP	Continental Airlines Inc
Home Depot USA, Inc.	HEB Grocery Company LP
Kroger Texas LP	Home Depot USA, Inc.
Southwestern Bell Telephone LP	Kroger Texas LP
Target Stores Division	Target Stores Division
United Parcel Service, Inc.	United Parcel Service, Inc.
Wal-Mart Associates, Inc.	Wal-Mart Associates, Inc.

* Employers are listed alphabetically, with no ranking intended. The number of employees is not disclosed due to confidentiality.

** The year 2008 and years prior to 2000 are not available.

Source: Labor Market and Career Information Department of the Texas Workforce Commission.

Texas and U.S. Selected Statistics

Last Ten Years

Texas and U.S. Population, Total Personal Income and Per Capita Income
Last Ten Years

	Population (Thousands)				Total Personal Income (Millions)				Per Capita Income			
Year	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change
1999	20,558	2.0%	279,040	1.2%	539,661	6.3%	7,796,137	5.1%	26,251	4.2%	27,939	3.9%
2000	20,952	1.9%	282,217	1.1%	593,139	9.9%	8,422,074	8.0%	28,309	7.8%	29,843	6.8%
2001	21,358	1.9%	285,226	1.1%	619,642	4.5%	8,716,992	3.5%	29,012	2.5%	30,562	2.4%
2002	21,731	1.7%	287,884	0.9%	626,604	1.1%	8,872,871	1.8%	28,835	(0.6)%	30,821	0.8%
2003	22,086	1.6%	290,449	0.9%	649,419	3.6%	9,150,320	3.1%	29,404	2.0%	31,504	2.2%
2004	22,455	1.7%	293,191	0.9%	694,925	7.0%	9,711,363	6.1%	30,948	5.3%	33,123	5.1%
2005	22,844	1.7%	295,898	0.9%	758,435	9.1%	10,252,849	5.6%	33,201	7.3%	34,650	4.6%
2006	23,408	2.5%	298,751	1.0%	821,639	8.3%	10,977,312	7.1%	35,101	5.7%	36,744	6.0%
2007	23,904	2.1%	301,617	1.0%	884,601	7.7%	11,631,571	6.0%	37,006	5.4%	38,564	5.0%
2008*	24,349	1.9%	304,566	1.0%	943,995	6.7%	12,122,110	4.2%	38,769	4.8%	39,801	3.2%

* Recent years are subject to revisions. 2008 numbers include some forecast model quarterly estimates for the second half of the year.

The Bureau revises historical data due to more complete information, revised census figures, and changes in methodology.

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of the Census and Texas Comptroller of Public Accounts.

Texas and U.S. Employment and Unemployment Rates

Last 10 Years

(Thousands of Jobs and Percent)

	Nonfarm Employment				Unemployment Percentage Rate	
Year	Texas	Percent Change	U.S.	Percent Change	Texas	U.S.
1999	9,160	2.4%	128,992	2.4%	4.6%	4.2%
2000	9,432	3.0%	131,791	2.2%	4.2%	4.0%
2001	9,514	0.9%	131,832	0.0%	4.8%	4.7%
2002	9,416	(1.0)%	130,347	(1.1)%	6.3%	5.8%
2003	9,370	(0.5)%	129,990	(0.3)%	6.7%	6.0%
2004	9,497	1.4%	131,423	1.1%	6.0%	5.5%
2005	9,740	2.6%	133,696	1.7%	5.3%	5.1%
2006	10,066	3.3%	136,092	1.8%	4.9%	4.6%
2007*	10,360	2.9%	137,618	1.1%	4.3%	4.6%
2008*	10,577	2.1%	137,479	(0.1)%	4.7%	5.7%

* 2007 and 2008 numbers are subject to benchmark revisions. 2008 numbers include estimates for the last quarter.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts and U.S. Bureau of Labor Statistics. Historical data have been revised.

Full-Time Equivalent Employees by Function

Last Ten Fiscal Years

FUNCTION	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Government	12,950	12,981	13,472	13,362	13,607	13,034	13,435	12,999	13,438	13,155
Education	119,286	122,009	124,871	129,767	133,857	134,456	140,367	144,636	146,944	152,121
Employee Benefits	306	313	309	314	315	302	292	294	302	311
Teacher Retirement Benefits	380	397	418	437	441	440	451	444	445	454
Health and Human Services	56,844	54,923	53,023	53,420	52,238	49,288	48,389	49,097	50,910	53,161
Public Safety and Corrections	53,510	52,699	52,133	52,405	53,231	51,473	51,397	51,564	50,889	50,340
Transportation	14,553	14,751	14,926	14,845	14,717	14,078	14,551	14,744	14,748	14,148
Natural Resources and Recreation	7,971	8,062	8,172	8,370	8,299	7,990	8,053	8,018	8,014	7,597
Regulatory Services	3,960	3,931	3,933	3,973	3,882	3,779	3,882	3,869	3,828	4,558
Total FTE's	269,760	270,066	271,257	276,893	280,587	274,840	280,817	285,665	289,518	295,845
Percentage Change	0.1%	0.1%	0.4%	2.1%	1.3%	(2.0)%	2.2%	1.7%	1.3%	2.2%

Source: Texas State Auditor's Office.

Statistical Section – Operating Information

Capital Asset Statistics by Function

Last Three Fiscal Years

Function	2006	2007	2008
GENERAL GOVERNMENT			
Number of TBPC Owned Facilities	75	75	137
State Real Property Inventory in Acres	2,425,037	1,322,123	1,325,319
EDUCATION			
Number of School Districts	1,033	1,031	1,031
Number of Students	4,505,572	4,576,933	4,671,493
Number of Higher Education Institutions	145	145	145
HEALTH AND HUMAN SERVICES			
Number of State Mental Health Facilities	39	39	39
Number of State Hospitals	10	10	11
PUBLIC SAFETY AND CORRECTIONS			
Number of State Prisons – TDCJ only	106	106	112
Number of available beds (capacity)	156,520	156,652	160,622
Number of authorized vehicular state patrol units	1,195	1,281	1,281
TRANSPORTATION			
Centerline Miles of Highways*	79,696	79,849	79,975
Number of Bridges**	33,322	32,996	33,118
NATURAL RESOURCES AND RECREATION			
Number of State Parks Managed	112	110	93
Number of Park Acreage	608,716	602,892	605,470

* Highway miles = state maintained centerline miles (miles traveled in one direction regardless of the number of lanes in a roadway).

** Number of bridges is the bridges owned by the state. TxDOT also works on off-system bridges (county and city-owned bridges). Off-system bridges are not included in the number of bridges total.

Source: Various state agencies and official state agency Web sites.

Operating Indicators by Function

Last Three Fiscal Years

Function	2006	2007	2008
GENERAL GOVERNMENT / REGULATORY SERVICES			
Number of Tax Returns Processed	3,904,659	4,251,103	4,054,947
Number of Licenses Issued (2008 is Estimated)	1,554,754	1,575,919	1,337,635
EDUCATION			
Average Daily School Attendance (ADA)*	4,205,729	4,260,406	4,326,176
Percent of Students Passing TAKS Test*	67%	70%	72%
Texas Higher Education Enrollments	1,211,582	1,228,897	1,273,954
Higher Education Degrees Awarded**	188,258	193,321	N/A
HEALTH AND HUMAN SERVICES			
Number of Medicaid Clients Served	2,873,786	2,831,832	2,877,326
Number of TANF Clients Served ***	172,776	145,807	125,250
Number of Immunizations	11,617,682	12,827,417	12,771,928
PUBLIC SAFETY AND CORRECTIONS			
Number of New Prison Population	74,170	73,525	74,283
Number of Prison Population Released	71,214	72,032	72,002
Average Daily Prison Population	151,734	152,805	155,588
Authorized Number of Troopers Patrolling Texas Highways	1,628	1,689	1,709
TRANSPORTATION			
Number of Construction Contracts Processed For Letting	1,075	877	694
Number of Lane Miles Receiving Roadway			
Surface Improvments: – By Contract	15,811	13,197	8,462
– Via State Sources	6,406	5,984	6,344
Number of Vehicles Registered	20,609,866	21,432,773	24,359,319
NATURAL RESOURCES AND RECREATION			
Number of State Parks Visits (In Millions)	5.0	4.9	4.3
Number of Parks and Wildlife Licenses Issued****	2,625,225	2,665,045	2,892,695

* The "Percent of Students Passing TAKS test" is from the 2007-08 TEA AEIS report at: http://www.tea.state.tx.us/perfreport/aeis/2008/state.pdf. These scores represent the "TAKS Met 2008 Standard (Sum of All Grades Tested)(Standard Accountability Indicator)".

** The 2008 degress conferred will not be available until later in 2009.

*** TANF fiscal 2008 is based on data through November 2008, but will not be finalized until March 2009.

**** Includes commercial and recreational licenses, stamps, tags and permits. Does not include items such as hunting lease license sales, collector's stamp sales, hunt drawing sales and other similar items sold through the Point-of-Sale System.

Other Sources: Various state agencies, state agency reports and official state agency Web sites.

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